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<SUBMISSION-CONTACT>
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<DOCUMENT>

<TYPE> 20-F

<DESCRIPTION> 20-F

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 20-F

Registration Statement pursuant to Section 12 (b) or (g) of The Securities Exchange Act of 1934

or

Annual report pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934 for the fiscal year ended December 31, 2002

or

Transition report pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934

Commission file number: 333-14278

WIMM-BILL-DANN FOODS OJSC

(Exact name of Registrant as specified in its charter)

RUSSIAN FEDERATION

(Jurisdiction of incorporation or organization)

16 Yauzsky Boulevard, Moscow 109028 Russian Federation

(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
AMERICAN DEPOSITARY SHARES, EACH REPRESENTING ONE ORDINARY SHARE, PAR VALUE 20 RUSSIAN RUBLES PER ORDINARY SHARE	NEW YORK STOCK EXCHANGE

Securities registered or to be registered pursuant to Section 12(g) of the Act:

NONE
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

NONE
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

44,000,000 ordinary shares, par value 20 Russian rubles each, as of December 31, 2002.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes:

No:

Indicate by check mark which financial statement item the Registrant has elected to follow:

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this document may constitute forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their businesses. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts.

We desire to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and are including this cautionary statement in connection with this safe harbor legislation. This document and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. The words "believe," "expect," "anticipate," "intends," "estimate," "forecast," "project" and similar expressions identify forward-looking statements. Forward-looking statements appear in a number of places including, without limitation, "Item 3D: Key Information—Risk Factors," "Item 4: Information on our Company" and "Item 5: Operating and Financial Review and Prospects," and include statements regarding:

- strategies, outlook and growth prospects;
- future plans and potential for future growth;
- liquidity, capital resources and capital expenditures;
- growth in demand for our services;
- economic outlook and industry trends;
- developments of our markets;
- the impact of regulatory initiatives; and
- the strength of our competitors.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters discussed elsewhere herein and in the documents incorporated by reference herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements including the achievement of the anticipated levels of profitability, growth, cost and synergy of our recent acquisitions, the timely development and acceptance of new products, the impact of competitive pricing, the ability to obtain necessary regulatory approvals, the impact of general business and global economic conditions and other important factors described from time to time in the reports filed by us with the Securities and Exchange Commission.

Except to the extent required by law, neither we, nor any of our respective agents, employees or advisors intend or have any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained or incorporated by reference in this document.

CURRENCIES AND EXCHANGE RATES

In this annual report, references to "U.S. dollars" or "\$" are to the currency of the United States, and references to "rubles" are to the currency of the Russian Federation.

PART I

Item 1 Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2 Offer Statistics and Expected Timetable

Not applicable.

Item 3 Key Information

A. Selected Financial Data

The selected consolidated and combined financial data set forth below at December 31, 2002, 2001, 2000 and 1999 and for the years then ended have been derived from our audited financial statements prepared in accordance with U.S. GAAP. The selected financial data set forth below at and for the year ended December 31, 1998 have been derived from our unaudited financial statements prepared in accordance with U.S. GAAP. The selected consolidated and combined financial data should be read in conjunction with our Consolidated and Combined Financial Statements as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000 and "Item 5. Operating and Financial Review and Prospects" included elsewhere herein.

	For the years ended December 31,				
	2002	2001	2000	1999	1998
	(Dollar amounts in thousands, except share, dividends per share and earnings per share)				(unaudited)
Statement of Operations Data:					
Sales	824,734	674,616	465,411	357,678	438,931
Cost of sales	(579,707)	(492,990)	(349,077)	(293,676)	(336,602)
Gross profit	245,027	181,626	116,334	64,002	102,329
Selling and distribution expenses	(109,527)	(62,213)	(34,138)	(22,378)	(30,782)
General and administrative expenses	(62,955)	(54,461)	(43,025)	(29,266)	(39,740)
Other operating expenses	(6,497)	(4,498)	(1,241)	(3,117)	(2,549)
Operating income	66,048	60,454	37,930	9,241	29,258
Financial income and expenses, net	(14,131)	(10,581)	(5,664)	(270)	(5,442)
Income before provision for income taxes and minority interest	51,917	49,873	32,266	8,971	23,816
Provision for income taxes(1)	(14,249)	(14,166)	(9,568)	(2,446)	(11,609)
Minority interest	(1,922)	(3,962)	(1,453)	(583)	(1,000)
Income from continuing operations	35,746	31,745	21,245	5,942	11,207
Income (loss) from discontinued operations(2)	—	103	138	(156)	(3,589)
Net income	35,746	31,848	21,383	5,786	7,618
Earnings per share—basic and diluted:					
Income from continuing operations	0.83	0.91	0.62	0.17	0.32
Income (loss) from discontinued operations	0.00	0.00	0.00	0.00	(0.10)
Net income	0.83	0.91	0.62	0.17	0.22
Dividends per share(3)	—	—	0.27	0.09	0.16

Weighted average common shares outstanding(4)	43,063,014	34,888,000	34,552,000	34,552,000	34,552,000
Other Data from Continuing Operations:					
Adjusted EBITDA (unaudited)(5)	83,346	73,721	46,830	19,340	29,537
Adjusted EBITDA margin (unaudited)(6)	10.1%	10.9%	10.1%	5.4%	6.7%
Capital expenditures	136,100	57,653	25,423	32,650	31,499
Cash (used in) provided by operating activities	(6,863)	12,591	16,771	6,696	Not available (7)
Cash used in investing activities	122,677	55,486	27,772	42,454	Not available (7)
Cash provided by financing activities	152,600	44,613	21,581	31,897	Not available (7)
At December 31,					
	2002	2001	2000	1999	1998
	(unaudited)				

Balance Sheet Data:					
Total assets of continuing operations	589,093	352,717	235,039	177,980	124,953
Total assets	589,093	352,717	314,131	208,688	148,719
Total net assets of continuing operations	282,884	85,011	45,358	40,933	38,223
Total net assets of discontinued operations	—	—	8,348	720	876
Total debt from continuing operations(8)	186,039	122,022	67,763	29,534	11,739
Total liabilities of continuing operations	284,660	244,330	154,847	104,278	52,462

Notes:

- (1) Provision for income taxes includes the tax benefit in our juice business relating to the small enterprise tax legislation. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Provision for Income Taxes."
- (2) Discontinued operations consist of banking and brewery businesses, which were disposed of in April 2001. See "Item 5. Operating and Financial Review and Prospects."
- (3) The dividends shown above are the dividend payments made by subsidiaries of Wimm-Bill-Dann Foods prior to the formation of Wimm-Bill-Dann Foods OJSC. Consequently, those dividends were determined based on the results of the individual entities and the ownership stakes in those entities and not on the share capital of Wimm-Bill-Dann Foods. Wimm-Bill-Dann Foods has not paid dividends for any of the periods presented.
- (4) Number of common shares outstanding for the periods before May 31, 2001 (before formation of Wimm-Bill-Dann Foods OJSC) was determined using 34,552,000 shares, which is the number of Wimm-Bill-Dann Foods OJSC's shares issued on May 31, 2001 to the members of the control group of shareholders. See Note 1 to our Consolidated and Combined Financial Statements as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000.
- (5) Adjusted EBITDA, which represents income from continuing operations before interest expense, income taxes, depreciation and amortization, adjusted for minority interest, should not be considered in isolation as an alternative to net income, operating income or any other measure of performance under U.S. GAAP. Further, adjusted EBITDA as presented above may not be comparable to similarly titled measures reported by other companies. We believe that adjusted

EBITDA, which is a commonly used financial indicator of a company's operating performance and debt servicing ability, is a relevant measurement to assess performance which attempts to eliminate variances caused by the effects of differences in taxation, the amount and types of capital employed and depreciation and amortization policies.

The table below shows a reconciliation of income before provision for income taxes and minority interest to adjusted EBITDA.

	2002	2001	2000	1999	1998
	(Amounts in thousands of U.S. dollars)				
	(unaudited)				
Income before provision for income taxes and minority interest	51,917	49,873	32,226	8,971	23,816
Interest expense	12,818	11,126	5,638	2,563	616
Depreciation and amortization	18,611	12,722	8,966	7,806	5,105
Adjusted EBITDA	83,346	73,721	46,830	19,340	29,537

- (6) "Adjusted EBITDA margin" represents adjusted EBITDA as a percentage of sales.
- (7) Cash flow information is not available for 1998 as financial statements for this year were not reasonably obtainable at other than disproportionate expenses.
- (8) Total debt represents long-term and short-term loans, including the current portion of long-term loans, bonds payable and vendor financing obligations.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

An investment in our ADSs and/or loan participation notes, or "notes", involves a high degree of risk. You should carefully consider the following information about these risks, together with the information contained in this document, before you decide to buy our ADSs and/or notes. If any of the following risks actually occurs, our business, financial condition or results of operations could be adversely affected. In that case, the trading price of our ADSs and/or notes could decline and you could lose all or part of your investment. For a description of the notes, see "Item 8. Financial Information—B. Significant Charges."

We have described the risks and uncertainties that our management believes are material, but these risks and uncertainties may not be the only ones we face. Additional risks and uncertainties, including those we currently do not know or deem immaterial, may also result in decreased revenues, increased expenses or other events that could result in a decline in the price of our ADSs and/or notes.

Risks Relating to Business Operations in Emerging Markets

Emerging markets such as the Russian Federation are subject to greater risks than more developed markets, including significant legal, economic and political risks.

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as the economy of the Russian Federation are subject to rapid change and that the information set out herein may

become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult their own legal and financial advisors before making an investment in our ADSs and/or notes.

Financial turmoil in emerging markets could cause the price of our securities to suffer.

Financial turmoil in Russia and other emerging markets in 1997 and 1998 adversely affected market prices in the world's securities markets for companies that operate in those developing economies. Financial turmoil in these countries could cause decreases in prices for securities of or related to our company, even if the Russian economy remains relatively stable.

Risks Relating to Our Business and Industry

Economic downturns could hurt our turnover and materially and adversely affect our strategy to increase our sales of premium brands.

Demand for dairy and juice products, as well as bottled water, depends primarily on demographic factors and consumer preferences as well as factors relating to discretionary consumer spending, including the general condition of the economy and general levels of consumer confidence. The willingness of consumers to purchase branded food and beverage products depends in part on local economic conditions. In periods of economic uncertainty, consumers tend to purchase more economy brands and, to the extent that our business strategy depends on the expansion of the sales of premium brands, our results of operations could suffer. Reduced consumption of our products in any of our key markets could reduce our turnover and profitability.

The failure of our geographic expansion strategy could hamper our continued growth and profitability.

Our expansion strategy depends, in part, on funding growth in additional markets, on our ability to identify attractive opportunities in markets that will grow and on our ability to manage the operations of acquired or newly established businesses. Should growth decline in our existing markets, not increase as anticipated in markets in which we have recently acquired or established businesses, or not increase in markets into which we subsequently expand, our geographic expansion strategy may not be successful and our business and profitability may suffer. We describe our geographic expansion strategy under "Item 4. Information on Our Company—B. Business Overview—Business Strategy."

Our growth strategy relies on acquisitions and establishing new businesses, and our future growth, results of operations and market share would be adversely affected if we fail to identify suitable targets, outbid competing bidders or finance acquisitions on acceptable terms.

Our strategy depends on us being a large manufacturer in the dairy and juice sectors so that we can benefit from economies of scale, better satisfy customer needs and compete effectively against other producers. Our growth will suffer if we are unable to implement our acquisition strategy, whether because we fail to identify suitable targets, outbid competing bidders or finance acquisitions on acceptable terms or for any other reason. Furthermore, any acquisitions or similar arrangements may harm our business if we are unsuccessful in our integration process or fail to achieve the synergies and savings we expect. We describe our acquisition strategy under "Item 4. Information on Our Company—B. Business Overview—Business Strategy."

Increased competition and consumer preference for low-price, lower-quality juice products primarily in the regions outside of Moscow and St. Petersburg have resulted in declining profit margins in our juice segment, which have adversely affected and may continue to adversely affect our results of operations.

Although juice consumption in Russia is increasing, our profit margins on our juice products decreased in 2002 due to vigorous market competition from domestic and foreign producers and to consumer preference for low-price, lower-quality juice products primarily in the regions outside of Moscow and St. Petersburg where per capita household incomes are generally lower. These factors put downward pressure on juice prices in all price categories in 2002. At the same time, prices for juice concentrate increased. A continuation of these trends may cause a further decline in our juice prices and profit margins and, consequently, have a further negative effect on our results of operations.

We may not be able to integrate our recently acquired companies into our operations.

We have recently acquired a number of new companies. There can be no assurance that we will be able to integrate these businesses successfully into our existing operations. Our failure to integrate these companies successfully could have a material adverse effect on our results of operations. See "Item 4. Information on Our Company—A. History and Development."

Our inability to develop new brands, products and product categories could significantly inhibit our future growth and profitability.

Our business expansion strategy contemplates our entry into new product categories, development of new products and marketing new brands in existing product lines. This strategy is designed to increase our market share and revenues by increasing consumer demand in our existing markets and entering into new market segments. The success of this strategy depends, in part, on our ability to anticipate the tastes and dietary habits of consumers and to offer products that appeal to their preferences. Our failure to anticipate, identify or react to changes in consumer preferences and consequent failure successfully to develop new brands, products and product categories could negatively affect our expansion strategy and have a significant adverse effect on our revenues.

If we do not continue to be an efficient producer in a highly competitive environment, particularly in relation to purchases of our packaging and raw materials, and our advertising and marketing expenditures, our results of operations will suffer.

Our success depends in part on our continued ability to be an efficient producer in a highly competitive industry. If we cannot continue to control costs through productivity gains or by eliminating redundant costs resulting from acquisitions, our results of operations will suffer. In particular, price increases and shortages of packaging and raw materials could adversely affect our results of operations. For example, our results of operations may be affected by the availability and pricing of packaging materials, principally cardboard and plastic containers, and raw materials, principally raw milk and juice concentrate. We are substantially dependent upon a single supplier of packaging materials, Tetra Pak, which may make us more vulnerable to changes in global supply and demand and their effect on price and availability of these materials. In addition, we are currently renegotiating certain pricing terms in our framework agreement with Tetra Pak pursuant to which we purchase packaging materials. Failure to conclude an agreement on commercially reasonable terms would have a material adverse effect on our results of operations. Additionally, weather conditions and other factors beyond our control significantly influence the price and availability of our raw materials. A number of our raw materials, such as juice concentrate and sugar, are international commodities and are subject to international price fluctuations.

Our success also depends on our continued ability to be an effective advertiser in a market where media inflation on leading national television channels exceeded 80% in 2002. A substantial increase in

the prices of any of the foregoing, which we may not be able to pass on to customers through price increases, or a protracted interruption in supply with respect to packaging or raw materials, could have a material adverse effect on our financial condition and results of operations. See "Item 4. Information on Our Company—B. Business Overview."

We may be unable to continue to add products and greater production capacity in faster growing and more profitable categories.

The food industry's growth potential is constrained by population growth, which has been falling in Russia. Our success depends in part on our ability to expand our business faster than populations are growing in the markets that we serve, or notwithstanding declines in the populations in those markets. One way to achieve that growth is to enhance our portfolio by adding products and greater production capacity in faster growing and more profitable categories. If we do not succeed in making these enhancements, our results of operations may suffer.

Our inability to address the seasonal difference between the demand for dairy products and the supply of raw milk could result in a significant increase in our production costs, reducing our turnover and profitability.

The demand for our dairy products is significantly higher during the winter months, when Russian raw milk production is at its lowest. Conversely, during the summer months we generally experience depressed demand for dairy products in many markets, while raw milk production is at its peak. If we are unable to mitigate this inverse relationship successfully, either through the purchase of raw milk during the winter at commercially competitive prices or through the use of dry milk, our production costs will increase significantly in the winter, reducing our profitability.

In the event that the Moscow City Government were to reduce significantly the prices or the amount of products it purchases from our baby food business, then our revenues from this business could be substantially reduced.

In 2002, the Moscow City Government purchased approximately 61% of the baby food products we produced in Moscow at a discount of approximately 20.1% from the market price of these products, and the proceeds of the baby food products sold to the Moscow City Government made up approximately 51% of the total proceeds of the Moscow Baby Food Plant. We supply these products to the Moscow City Government pursuant to a tender held on a yearly basis. In the event that we were to lose a tender, or the Moscow City Government was to reduce significantly the prices or the amount of products it purchases from our baby food business, and we were unable to find alternative purchasers, then our revenues from this business could be substantially reduced. We discuss the sale and distribution of products produced at the Moscow Baby Food Plant in "Item 4. Information on Our Company—B. Business Overview—Current Operations—Distribution."

Our substantial reliance on independent retailers and independent distributors for the distribution of our products could lower our turnover and reduce our competitiveness.

We sell our products either directly to retailers, including supermarkets, grocery shops and restaurants, or to independent distributors for resale to retail outlets. We expect sales to retailers and independent distributors to continue to represent a significant portion of our revenues. Our operations and distribution costs could be affected by the increasing consolidation of these entities, particularly as these customers become more sophisticated and attempt to force lower pricing and increased promotional programs. For example, in the spring of 2001, several Russian supermarket chains formed a loose alliance which publicly announced its intention not to purchase our products. Although these supermarket chains now purchase our products, there can be no assurance that they will continue to do so or that they or other supermarket chains will not attempt a similar consolidation of market power in the future. Certain retailers also seek price discounts from manufacturers. Additionally, a number of

large Western retailers, such as the Turkish retailer Ramenka, the German retailer Metro and the French retailer Auchan, have already opened stores in the Moscow region, and we expect that the presence of these retailers will increase price competition and competition for shelf space.

We also compete with other brands for shelf space in retail stores and marketing focus by our independent distributors and retailers, and our independent distributors and retailers offer other products, sometimes including their own brands, that compete directly with our products. If independent distributors and retailers give higher priority to other brands, purchase less of, or even refuse to buy, our products, seek substantial discounts, or devote inadequate promotional support to our brands, it could materially and adversely affect our turnover and reduce our competitiveness and profitability.

Independent distributors may export our products to countries where such products do not meet the requirements of applicable legislation. The consequent recalls of our products and the associated negative publicity may adversely affect our reputation in the Russian Federation, the Commonwealth of Independent States, or "CIS", and abroad, and adversely affect our results of operations.

In exporting our products, we attempt to meet the standards and requirements of applicable legislation governing the import of food products into the importing country. Independent distributors have, in some cases, attempted to export our products to countries where such products did not meet the requirements of applicable legislation.

For instance, one of our independent dairy distributors exported our Darling Mila milk to the United States in January 2003. This milk was subsequently recalled from stores in February 2003, when food inspectors discovered that the milk contained sulfonamide. Whereas Russian legislation does not explicitly prohibit sulfonamide in milk, United States legislation does prohibit it. The recall, which was publicized in the Russian press, and any similar events that may occur in the future could negatively affect our reputation in the Russian Federation, the CIS and abroad, and adversely affect our results of operations.

We do not carry the types of insurance coverage customary in other countries for a business of our size and nature, and a significant occurrence could cause significant harm to our operations and profitability.

In June 2003, we acquired "all risks" insurance coverage of a type customary in Russia for our eleven major production facilities covering the most valuable equipment at these facilities. At present, however, we do not carry insurance for business interruption or for third party liability in respect of property or environmental damage arising from accidents. In the event that a major event were to affect one of our facilities, we could experience substantial property loss and significant disruptions in our production capacity which, in turn, could cause significant harm to our operations and profitability. For example, if substantial production capacity were lost at Lianozovo Dairy Plant, which is our primary production facility, we would not be able to replace a substantial portion of this capacity with capacity from our other plants, potentially resulting in the interruption of the production of a number of our products. We do not maintain separate funds or otherwise set aside reserves for these types of events.

Our management information system may be inadequate to support our future growth.

Our management information system is significantly less developed in certain respects than those of food producers in more developed markets and may not provide our management with as much or as accurate information as those in more developed markets. In addition, we may encounter difficulties in the ongoing process of implementing and enhancing our management information system. Our inability to maintain an adequate management information system may adversely affect our business.

We may not be able to protect our intellectual property rights adequately, resulting in material harm to our financial results and ability to develop our business.

Given the importance of brand recognition to our business, we have invested considerable effort in protecting our portfolio of intellectual property rights, including trademark registration. However, we cannot be certain that the steps we have taken will be sufficient or that third parties will not infringe or misappropriate our proprietary rights. For example, in 2002 and 2003 there were two instances of infringement on our "Ginger Up" trademark. The infringement ceased in the first instance after we sent a warning letter identifying the violation, and we are currently in the process of addressing the second instance of infringement. Moreover, Russia and the other countries of the CIS in which we operate generally offer less intellectual property protection than in Western Europe or North America. If we are unable to protect our proprietary rights against infringement or misappropriation, it could materially harm our future financial results and our ability to develop our business. We describe our patents and trademarks under "Item 4. Information on Our Company—B. Business Overview—Current Operations—Trademarks and Patents."

Failure of several of our brand names and images, for which trademarks are currently being sought, to be awarded trademark protection could materially affect our marketing plans, resulting in increased advertising expenses and adversely affecting our financial results.

As of January 30, 2003, we had 195 pending trademark applications in Russia and 78 pending trademark applications abroad. The trademark application for one of our products, Wonder-Berry, was rejected in Finland and Bulgaria, and we are in the process of contesting the rejection in Bulgaria. If our pending applications are not granted trademark status, we will have limited ability to defend these brand names or images from use by others, significantly reducing the value of any advertising using these brand names or images. This will negatively affect our marketing plans for the products that utilize these brand names or images, and may require us to develop a different marketing approach for these products, resulting in increased advertising expenses and adversely affecting our financial results.

Failure to comply with existing governmental regulations, or increased governmental regulation of our operations, could result in substantial additional compliance costs or administrative penalties which would adversely affect our financial results and could reduce our ability to maintain or increase production.

Our operations and properties are subject to regulation by various government entities and agencies. As a producer of food products, our operations are subject to quality, health and safety, production, packaging, quality, labeling and distribution standards. The operations of our production and distribution facilities are also subject to various environmental laws and workplace regulations. We believe that our current legal and environmental compliance programs adequately address these concerns and that we are in substantial compliance with applicable laws and regulations. However, compliance with, or any violation of, current and future laws or regulations could require material expenditures by us or otherwise adversely affect our business or financial results. See "Item 4. Information on Our Company—B. Business Overview—Regulation" below.

Additionally, under relevant Russian legislation, Russian regulatory agencies can impose various sanctions for violations of environmental standards. These sanctions may include civil and administrative penalties applicable to a company and criminal and administrative penalties applicable to its officers. Also, in the course, or as a result, of an environmental investigation, regulatory authorities can issue an order halting part or all of the production at a plant which has violated environmental standards. We have been, at various times, subject to administrative sanctions for failure to comply with environmental regulations relating to effluent discharge and to minor administrative sanctions for violations relating to waste disposal. In the event that production at one of our facilities was partially or wholly prevented due to this type of sanction, our production capability would suffer significantly and our operating results would suffer.

If we are unable to obtain adequate funding, we may have to limit our operations substantially, with a resulting negative impact on our operating results and loss of market share.

We plan to make significant capital expenditures, particularly in connection with our acquisition of new companies, expansion of existing operations, and upgrades of existing facilities. For the fulfillment of our capital spending plans, excluding expenditures for acquisitions, we spent approximately \$57.7 million in 2001 and \$136.1 million in 2002, and have budgeted \$154.5 million for 2003. We spent approximately \$15.0 million in 2001 and \$39.6 million in 2002 on capital expenditures for acquisitions. We have also budgeted \$54.9 million for acquisitions in 2003. However, future financing may not be sufficient to meet our planned needs in the event of the following potential developments:

- changes in the terms of existing financing arrangements;
- pursuit of new business opportunities that require significant investment; or
- significant deterioration in the Russian economy.

To meet our financing requirements, we may need to attract additional equity or debt financing. Debt financing in Russia, particularly long-term debt financing, on commercially acceptable terms may be difficult to obtain, and we may not be able to borrow in the international capital markets on acceptable terms in the future. If we cannot obtain adequate funds to satisfy our capital requirements, we may need to limit our operations significantly, which could negatively affect our market share and operating results.

Rapid growth and expansion may cause us difficulty in obtaining adequate managerial and operational resources, restricting our ability to expand our operations successfully.

We have experienced rapid growth and development in a relatively short period of time. Management of such growth has required significant managerial and operational resources and is likely to continue to do so. Our future operating results depend in significant part upon the continued contributions of a small number of our key senior management and technical personnel. Management of growth will require, among other things:

- continued development of financial and management systems;
- increased marketing activities; and
- hiring and training of new personnel.

Our success will depend, in part, on our ability to continue to attract, retain and motivate qualified personnel. Competition in Russia for personnel with relevant expertise is intense, due to the small number of qualified individuals, and we attempt to structure our compensation packages in a manner consistent with evolving standards of the Russian labor market. We are not insured against damage that may be incurred in case of the loss or dismissal of our key personnel. Our failure successfully to manage our growth or personnel needs could have a material adverse effect on our business, operating performance and financial condition.

Since our initial public offering, or IPO, in February 2002, our chief operating officer has departed and our chief financial officer has been replaced. Departures of senior management may be disruptive to our business and our success will depend, in part, on continuity in our senior management team.

We are controlled by a group of shareholders whose interests could conflict with those of the holders of our ADSs and/or notes.

As of June 1, 2003, approximately 66.38% of our outstanding common stock is owned by the group of shareholders that owned us prior to our IPO. This group has acted in concert since our establishment and, since 1997, pursuant to a Partnership and Cooperation Agreement, amended and restated January 16, 2002, which requires the parties to vote the same way. This group continues and

will continue to be bound by this agreement to vote as a block for at least two years from January 16, 2002. This agreement gives them control over us and the ability to elect a majority of the directors, appoint management and approve certain actions requiring the approval of a majority of our shareholders. The interests of these shareholders could conflict with those of the holders of our ADSs and/or notes and materially adversely affect your investment.

In the event that our equipment rental arrangements were deemed to be subject to licensing requirements, our subsidiaries engaging in these arrangements could be subject to liquidation or face the invalidation of the rental contracts.

A number of our subsidiaries purchase equipment which they then, in turn, lease to raw material producers. In addition, many of our dairy plants that also produce juice products, including the Lianozovo Dairy Plant, lease equipment to juice producers. Prior to February 11, 2002, when the new Federal Law on Licensing of Certain Types of Activities became effective, Russian legislation required a license for financial leasing activities, but it is unclear whether this requirement extended to our leasing activities. Although leasing activities are no longer subject to licensing, in the event that the relevant governmental authorities were to successfully claim that a license was required for our past leasing activities, we would be subject to significant negative consequences such as the potential liquidation of the leasing entity and invalidation of the relevant contracts.

If any of our subsidiaries is forced into liquidation due to negative net equity, our results of operations could suffer.

In accordance with Russian legislation, in the event that a company's net assets, as stated in the annual balance sheet prepared under Russian accounting standards, fall below the minimum charter capital required by law, the company must voluntarily liquidate. Should the company fail to act, its creditors may accelerate their claims or demand early performance of obligations and demand payment of damages, and governmental authorities may seek the involuntary liquidation of the company.

Six of our trade company subsidiaries and one of our production subsidiaries, the Gulkevichsky Butter Factory, have net assets below the minimum charter capital required by law. These subsidiaries, individually and taken together, are not material to our operations. We have not taken any steps to remedy this situation because we believe that, as long as these subsidiaries continue to fulfill their obligations, the risk of their liquidation is minimal. While we understand that a Moscow court recently liquidated a company pursuant to this legislation, we are not aware of any situation where a Russian company has been liquidated pursuant to this legislation if it has met all of its obligations, as each of these seven subsidiaries has. Therefore, we believe that this risk is remote and have not included it as a contingency in the notes to our financial statements which appear elsewhere in this document. However, if involuntary liquidation were to occur, we would be forced to reorganize the operations we currently conduct through these subsidiaries.

In the event that deficiencies or ambiguities in privatization legislation are successfully exploited to attack our ownership in a privatized company and we are unable to defeat this claim, we risk losing our ownership interest in the company or its assets, which could materially affect our production capability, market share and results of operations.

Our business includes a number of privatized companies in Russia and other countries of the former Soviet Union, and our acquisition strategy will likely involve additional privatized companies. To the extent that privatization legislation has been vague, internally inconsistent and in conflict with other legislation, including conflicts between federal and local privatization legislation, most, if not all, privatizations are arguably deficient and therefore are vulnerable to attack. For instance, a series of presidential decrees issued in 1991 and 1992 which granted to the government of Moscow the right to adopt its own privatization procedures were subsequently held invalid by the Constitutional Court of the Russian Federation in 1993, which ruled, in part, that the presidential decrees addressed issues

which were the subject of federal law. While this court ruling, in theory, does not require any implementing actions, the presidential decrees were not officially annulled by another presidential decree until 2000. In the event that any of our privatized companies are subject to attack as having been improperly privatized and we are unable to defeat this claim, we risk losing our ownership interest in the company or its assets, which could materially affect our production capability, market share and results of operations. Most important, as the ownership of the majority of our other subsidiaries is through Lianozovo Dairy Plant, and as Lianozovo Dairy Plant constitutes the majority of our production capacity, its loss would substantially and negatively affect us.

Additionally, of the 99% of Lianozovo Dairy Plant and 93% of Tsaritsino Dairy Plant which we own, 15% of each were acquired in separate investment tenders held by the Department of State and Municipal Property of the Moscow Government. Under the legislation governing such tenders, a tender is not valid unless at least two participants submit bids. In the investment tenders for Lianozovo Dairy Plant and Tsaritsino Dairy Plant, the only two participants were entities which were under common control, an arguable violation of this requirement. In the event that the Russian government authorities were successfully to maintain that these tenders were not duly held since the participants were under common control, we could lose 15% of our stakes in Lianozovo Dairy Plant and Tsaritsino Dairy Plant, substantially and negatively affecting our results of operations.

In the event that companies which, as a result of our corporate reorganization for our initial public offering, were transferred by us but continue to be associated in the public mind with the "Wimm-Bill-Dann" name give rise to shareholder liability or reputational issues, our results of operations or reputation could suffer.

As part of our corporate reorganization for our initial public offering, we transferred our interests in a bank, Expobank, and four breweries to certain of our shareholders. These shareholders, in turn, have disposed of their interests in the bank, but retain their interests in the breweries. In the event that these companies, which are no longer owned by us but may continue to be associated with the "Wimm-Bill-Dann" name in the public mind, are subject to negative publicity, this could affect our reputation. For example, there have been press reports about a dispute regarding the exclusion, in the fall of 2000, of minority shareholders from a shareholders' meeting of a beer company previously owned by us and now owned by our current shareholders, some of whom are also members of our Board of Directors. These press reports repeated allegations made by the excluded minority shareholders as to the illegality of their exclusion, although their exclusion was upheld in court. Press speculation of a similar nature could raise concerns about how the holders of our ADSs and/or notes and minority shareholders in our company, will be treated, negatively affecting the price of the ADSs and/or notes. Additionally, we could be held responsible for any shareholder liability which arises in connection with these companies and their operations during the time which they were owned by our subsidiaries.

Possible implementation of new federal or local government policies, or selective application of existing policies, affecting the food industry could substantially and negatively affect our turnover and operating margin.

Possible implementation of new federal or local government policies, or selective application of existing policies, affecting the food industry could have a significant impact on our business. For example, the federal and local governments have been known to implement trade barriers, subsidies and other policies favoring certain producers. Additionally, customs regulations in Russia are unclear, subject to frequent change and are applied inconsistently. The imposition of higher customs duties on products we import would increase the costs of our products and reduce our turnover, while the implementation of price controls on products we produce would reduce our operating margin. For example, federal customs regulations enacted during 2001 subject juice concentrate imports to the highest level of customs duties allowed for that particular category of imports. In addition, federal customs regulations enacted during 2002 stipulate minimum declaration amounts for imported goods.

As a result of such regulations, we may be forced to declare a higher value for imported goods than the amount actually paid and, consequently, pay a higher tariff on such goods.

Another example of a government regulation that has affected us is Government Regulation No. 988, which, as of January 1, 2004, requires food producers intending to develop and offer a new food product to the public to file an application for the product's state registration and incorporation into the State Register of Permitted Food Products. The implementation of this regulation may cause delays in the introduction of our new products and result in increased production costs.

Increased domestic production by our foreign competitors could reduce our competitive advantages against them, which would adversely affect our market share and results of operations.

A number of our foreign competitors, such as Danone, Parmalat, Campina, Ehrmann, Onken, and Pascuale, have begun to invest in domestic production facilities, beginning to reduce the competitive advantages that we have over foreign competitors without domestic production capability. If this trend continues, we will lose a significant advantage that we currently have, as a domestic producer, over our foreign competitors, which would adversely affect our market share and results of operation.

Allegations about certain of our shareholders or directors could adversely affect our reputation.

Certain of our shareholders and directors, including the Chairman of our Board of Directors, are shareholders in, and directors of, a group of related companies sometimes referred to as "Trinity." The Trinity group engages in automobile distribution, financial services, security services, casinos, construction, advertising and engineering. We purchased Municipal Guard Agency, a security services company, from the Trinity group in 2001. Prior to and in the beginning of 2002, we obtained security services from Trinity-Negus, and we currently (i) purchase milk from Poultry Factory Gorki-2 and (ii) receive transportation services from Avto-40, all companies in the Trinity group. See "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions" for a description of these transactions. The Trinity group has been the subject of speculation in the Russian press, including with respect to possible links with organized crime. However, no charges have been brought by governmental authorities against any of our shareholders or directors and, to the best of our knowledge, none has been threatened. In addition, our largest shareholder, who is not a member of our Board of Directors, was convicted of a violent crime in 1980 under the Soviet system and served nine years in a labor camp. Press speculation about these or other matters relating to our shareholders or directors could adversely affect our reputation and the price of our ADSs and/or notes.

If the Ministry of Antimonopoly Policy and Support of Entrepreneurial Activity were to conclude that we acquired or created a new company in contravention of antimonopoly legislation, it could impose administrative sanctions and require the unwind of such transactions, adversely affecting our acquisition strategy and our results of operations.

Our business has grown substantially through the acquisition and founding of companies, many of which required the prior approval or subsequent notification of the Russian Ministry of Antimonopoly Policy and Support of Entrepreneurial Activity or its predecessor agencies. In part, relevant legislation restricts the acquisition or founding of companies by groups of companies or individuals acting in concert without this approval or notification. While we believe that we have complied with the applicable legislation for our acquisitions or new companies, this legislation is sometimes vague and subject to varying interpretations. Additionally, although the common ownership by our shareholders of a number of companies which are now our subsidiaries was generally made known to the Ministry of Antimonopoly Policy and Support of Entrepreneurial Activity and its predecessors, the existence of the shareholders' agreement among our current shareholders was not disclosed. If the Ministry of Antimonopoly Policy and Support of Entrepreneurial Activity were to conclude that an acquisition or creation of a new company was done in contravention of applicable legislation, it could impose

administrative sanctions and require the unwind of such transactions, adversely affecting our acquisition strategy and our results of operations.

Further restrictions on our business which is categorized as a monopoly, or the extension of monopoly status to other of our businesses, could result in the regulation of our prices and restriction of our commercial activities, significantly affecting our results of operations.

Under Russian legislation, the Russian Ministry of Antimonopoly Policy and Support of Entrepreneurial Activity may categorize a company as a dominant force in a market. Our baby food business is categorized as a monopoly in Moscow and the Moscow region, placing restrictions on our ability to increase our profit margins for that business. Any ruling that any of our other businesses is a monopoly could result in the regulation of our prices and restrictions on our commercial activities. The imposition of government-determined prices could, in turn, result in competitive disadvantages and a significant decline in revenues. Additionally, restrictions on expansion or government-mandated withdrawal from regions or markets would negatively affect our plans for expansion and could reduce our market share.

In the event that minority shareholders were to contest successfully existing, or were to prevent future, approval of transactions among our subsidiaries which require special approval in accordance with Russian legislation, this could limit our operational flexibility and adversely affect our results of operations.

We own less than 100% of a number of our subsidiaries, including our most important subsidiary, Lianozovo Dairy Plant. Under Russian law, certain transactions defined as "interested party transactions" require approval by disinterested directors or shareholders of the companies involved. "Interested party transactions" include transactions in which a member of the board of directors, an officer of a company or any person that owns, together with any affiliates of that person, at least 20% of a company's voting shares, or any person that is entitled to give binding instructions to a company, is interested, if that person, or that person's relatives or affiliates, is

- a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- the owner of at least 20% of the issued voting shares of a legal entity that is a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- a member of the board of directors or an officer of a company which is a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary.

See "Item 4. Information on Our Company—B. Business Overview—Regulation" for more details on the transactions that require this approval under Russian law. Our subsidiaries engage in numerous transactions which require interested party transaction approvals in accordance with Russian law. These transactions have not always been properly approved, and therefore may be contested by minority shareholders. In the event that minority shareholders were to contest successfully existing interested party transactions among our subsidiaries, or prevent the approval of these transactions in the future, this could limit our operational flexibility and adversely affect our results of operations.

In addition, certain transactions between members of a consolidated corporate group may be considered interested party transactions under Russian law even when the companies involved are wholly-owned by the parent company. While we generally endeavor to obtain all corporate approvals required under Russian law to consummate transactions, we have not always applied special approval procedures in connection with our consummation of transactions with or between our subsidiaries. In the event that a claim is filed in relation to certain transactions with or between our subsidiaries, such transactions are found to have been interested party transactions, and we are found to have failed to

obtain the appropriate approvals therefor, such transactions may be declared invalid. The unwinding of any transactions concluded with or between our subsidiaries may have a negative impact on our business and results of operation.

Risks Relating to Our Financial Condition

Inflation could increase our costs and decrease our operating margins.

The Russian economy has been characterized by high rates of inflation, including a rate of 84.4% in 1998, although, according to the Central Bank of Russia, it subsided to 15.1% during 2002. When the rate of inflation exceeds the rate of devaluation, resulting in real appreciation of the ruble against the U.S. dollar, we can experience inflation-driven increases in U.S. dollar terms of certain of our costs, such as salaries, which are sensitive to rises in the general price levels in Russia. In this situation, due to competitive pressures, we may not be able to raise the prices for our products sufficiently to preserve operating margins. Accordingly, high rates of inflation in Russia relative to the rate of devaluation could increase our costs and decrease our operating margins.

Changes in exchange rates could increase our costs, decrease the value of our ruble-denominated monetary assets, prevent us from repaying our debts, or increase competition from foreign producers.

Over the past several years, the ruble has fluctuated dramatically against the U.S. dollar, in the great majority of instances falling in value. The Russian Central Bank has from time to time imposed various currency-trading restrictions in attempts to support the ruble. The ability of the Russian government and the Russian Central Bank to maintain a stable ruble will depend on many political and economic factors. These include their ability to finance budget deficits without recourse to monetary emissions, to control inflation and to maintain sufficient foreign currency reserves to support the ruble.

A significant portion of our costs and expenditures, including costs of packaging, juice concentrate and certain other raw materials, as well as capital expenditures and borrowings (including the \$150 million loan we received in connection with our May 2003 Eurobond offer) are either denominated in or tightly linked to the U.S. dollar or euro, while substantially all of our revenues are denominated in rubles. As a result, devaluation of the ruble against the U.S. dollar or the euro can adversely affect us by increasing our U.S. dollar or euro costs in ruble terms. If we cannot increase our ruble prices in line with ruble devaluation due to competitive pressures, this will lead to a loss of revenue and income in U.S. dollar terms. Additionally, if the ruble declines and prices cannot keep pace, we could have difficulty covering our dollar- or euro-denominated costs or repaying our U.S. dollar- or euro-denominated indebtedness.

The devaluation of the ruble also results in losses in the value of ruble-denominated monetary assets, such as ruble deposits and accounts receivable.

The decline in the value of the ruble against the U.S. dollar also reduces the U.S. dollar value of tax savings arising from tax incentives for capital investment and the depreciation of our property, plant and equipment since their basis for tax purposes is denominated in rubles at the time of the investment or acquisition. Increased tax liability would increase our total expenses.

On the other hand, a strengthening of the ruble results in a relative decrease in the price of imported products, as does a strengthening of the ruble in real terms (even if it declines in nominal terms). The strengthening of the ruble in nominal or real terms enhances our ability to import raw materials, to cover our U.S. dollar-denominated or U.S. dollar-linked costs and to repay our U.S. dollar-denominated indebtedness, but also increases the ability of foreign producers who export products to Russia to compete effectively with us in the Russian market. See also "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

Our inability to obtain permission from the Central Bank of Russia pursuant to currency control regulations may hinder our ability to enter into certain hard-currency-denominated transactions.

Certain payments in foreign currency are subject to prior permission by the Central Bank of Russia, including, with various exceptions, the following:

- direct investments, except investments from abroad in the charter capital of a Russian company;
- payments with respect to real estate, except acquisition of real estate by non-residents and lease payments by non-residents;
- portfolio investments; and
- payments for export-import transactions with settlement over 90 days following completion.

These regulations are subject to substantial changes and varying interpretations, complicating both the process of determining whether permission of the Central Bank of Russia is required and the process of obtaining permission. If we are unable to obtain Central Bank of Russia permissions for hard-currency-denominated transactions requiring such permissions, our ability to enter into such transactions may be hindered. In addition, in the event that we failed in the past to obtain Central Bank of Russia permissions for hard-currency-denominated transactions and borrowings requiring such permissions, such failure could result in severe penalties, including the unwinding of such transactions, fines and administrative penalties assessed against us and criminal and administrative penalties assessed against our management which, in turn, would negatively affect our business.

Restrictions on investments outside Russia or in hard-currency-denominated instruments in Russia expose our cash holdings to devaluation.

Though our ability to place foreign currency deposits in Russian banks is not limited, currency regulations established by the Central Bank of Russia restrict investments by Russian companies outside Russia and in most hard-currency-denominated instruments in Russia, and there are only a limited number of ruble-denominated instruments in which we may invest our excess cash. Any balances maintained in rubles will give rise to losses if the ruble devalues against the U.S. dollar. Moreover, defaults on our ruble-denominated investments may result in substantial losses for us.

Some of our customers and other debtors may fail to pay us or to comply with the terms of their agreements with us which could adversely affect our results of operations.

Russia's inexperience with a market economy relative to more developed economies poses numerous risks that could interfere with our business. For example, the failure to satisfy liabilities is widespread among Russian businesses and the government. Furthermore, it is difficult for us to gauge the creditworthiness of some of our customers, as there are no reliable mechanisms, such as reliable credit reports or credit databases, for evaluating their financial condition. Consequently, we face the risk that some of our customers or other debtors will fail to pay us or fail to comply with the terms of their agreements with us, which could adversely affect our results of operations.

Continued or increased limitations on the conversion of rubles to hard currency in Russia could increase our costs when making payments in hard currency to suppliers and creditors and could cause us to default on our obligations to them.

Our major capital expenditures are generally denominated and payable in various foreign currencies, including U.S. dollars and euro. To the extent such major capital expenditures involve the importation of equipment and related items, Russian legislation permits the conversion of ruble revenues into foreign currency. However, the market in Russia for the conversion of rubles into foreign currencies is limited. The scarcity of foreign currencies may tend to inflate their values relative to the ruble, and such a market may not continue to exist.

Additionally, any delay or other difficulty in converting rubles into a foreign currency to make a payment or delay or restriction in the transfer of foreign currency could limit our ability to meet our payment and debt obligations, which could result in the loss of suppliers, acceleration of debt obligations and cross-defaults.

If the various initiatives we have used to reduce our tax burden are successfully challenged by the Russian tax authorities, we will face significant losses associated with the assessed amount of tax underpaid and related interest and penalties, which would have a material impact on our financial condition and results of operations.

We have used, and continue to use, various initiatives to reduce our tax burden. As described below, several of our tax initiatives have recently been challenged by the Russian tax authorities. There have also been press reports of instances in which the Russian tax authorities have successfully challenged structures similar to those we use. If any of our initiatives are successfully challenged by the Russian tax authorities, we would face significant losses associated with the assessed amount of tax underpaid and related interest and penalties. These losses could have a material impact on our financial condition and results of operations. See Note 30 to our Consolidated and Combined Financial Statements as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002.

On May 23, 2003 a claim was filed with the Arbitration Court of the City of Moscow by our subsidiary, Fruit Rivers, in relation to a tax assessment in the amount of approximately \$6.9 million (including interest and penalties) Fruit Rivers received from the Russian Tax Authority. The assessment relates to Fruit Rivers' use of a small enterprise tax exemption in its calculation of its profit tax liability during 2002. On May 27, 2003, the Arbitration Court granted Fruit Rivers an injunction prohibiting the Russian Tax Authority from undertaking any actions to enforce this assessment until the court issues a ruling on the merits in relation to this matter. Further hearings in this case have not yet been scheduled by the court.

Our management believes that Fruit Rivers has a solid legal standing in connection with this claim and will continue to vigorously defend its position that tax optimization initiatives used by us and our subsidiaries are in compliance with the Russian tax law. However, if the courts were to rule in the Russian Tax Authority's favor, we would be liable for the amount of the assessments and could potentially be liable for significant additional amounts.

In addition, on May 26, 2003, we received notice that an appeal was filed by the Russian Tax Authority with the Federal Arbitration Court of the Moscow District in a case relating to the Russian Tax Authority's assessment of approximately \$2.4 million (including penalties) against Fruit Rivers. This assessment related to the calculation of value added tax, or VAT, on juice products sold by Fruit Rivers during 2001. Fruit Rivers challenged this assessment in the Moscow Arbitration Court on December 9, 2002 and the court voided the decision and assessment of the Russian Tax Authority in this matter. The court's decision was affirmed by the appellate division of the Moscow Arbitration Court on February 27, 2003. A hearing on the new appeal was held on June 16, 2003, at which time the Federal Arbitration Court of the Moscow District affirmed the decision of Moscow Arbitration Court and the appellate division of the Moscow Arbitration Court voiding the decision and assessment of the Russian Tax Authority and dismissed their appeal.

While we believe that Fruit Rivers and our other subsidiaries have complied and continue to comply with their VAT obligations, we cannot assure you that the Russian Tax Authorities will not further appeal this case or in the future make claims against other Wimm-Bill-Dann subsidiaries for additional VAT amounts with respect to sales of juice or other products. These claims could be significantly larger than the claim made in connection with Fruit Rivers and our ability to recover VAT owed by the Russian Tax Authority could also be jeopardized. The resulting losses could have a material adverse impact on our financial condition and results of operations.

The elimination of a tax privilege from which we currently benefit and/or a successful challenge by the tax authorities of our use of this tax privilege would materially adversely affect our results of operations.

In 2000, 2001 and 2002, our juice-products subsidiaries benefited from small enterprise tax legislation. If we had not taken advantage of this benefit in 2000, 2001 and 2002, our tax expenses would have increased by \$6.0 million, \$14.1 million and \$5.7 million, respectively. This tax benefit was eliminated as of January 1, 2002. However, even under the amended legislation, our small enterprises that were formed prior to January 1, 2002, will be able to continue to use this benefit for two years from the date on which they were formed, and in the third and fourth years after they were formed, income tax will be levied at a rate of 25% and 50% of the income tax rate, respectively. This change in legislation could materially adversely affect our results of operations in the future. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Provision for Income Taxes."

In addition, our Fruit Rivers subsidiary recently received a tax assessment from the Russian Tax Authority in the amount of approximately \$6.9 million relating to Fruit Rivers' use of the small enterprise tax exemption in its calculation of its profit tax liability, and it has initiated a proceeding in the courts to challenge this assessment. See "—If the various initiatives we have used to reduce our tax burden are successfully challenged by the Russian tax authorities, we will face significant losses associated with the assessed amount of tax underpaid and related interest and penalties, which would have a material impact on our financial condition and results of operations" above for additional detail regarding this tax claim.

We are only able to conduct banking transactions with a limited number of creditworthy Russian banks as the Russian banking system remains underdeveloped. Consequently, we face increased risk in our domestic banking transactions, including potential tax liabilities.

Russia's banking and other financial systems are not well developed or regulated and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent applications. In addition, the 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks. Most creditworthy Russian banks are located in Moscow and there are fewer in the regions. Although we have tried to reduce our risk by receiving and holding funds in a number of Russian banks, including subsidiaries of foreign banks, another prolonged banking crisis or insolvency of some of our banks could adversely affect our business and our ability to complete banking transactions in Russia.

In addition, we have also experienced problems with transmitting tax payments through certain Russian banks. For example, in May 2003 two of our subsidiaries, Ramenskoe Milk LLC and Wimm-Bill-Dann Purchaser OJSC, received tax assessments from the Russian Tax Authority for non-payment of taxes due. The assessment was for a total combined amount of approximately \$100,000 and resulted from the failure of the subsidiaries' banks to transfer tax payments to the state budget upon receiving the relevant payment orders. While the Russian Tax Code provides that a taxpayer is deemed to have paid a tax when the corresponding payment order is received by the taxpayer's bank, recent press reports have indicated that the Russian Tax Authority has been actively and often successfully challenging such payments if the tax is not in fact paid due to the failure of the bank to transfer such tax payment. Russian courts often rule in favor of the Russian Tax Authority in such cases.

Our management believes that each of Ramenskoe Milk LLC and Wimm-Bill-Dann Purchaser OJSC complied with their respective tax payment obligations that are the subject of the assessments. However, if the courts were to rule in the Russian Tax Authority's favor in these matters, these subsidiaries and other of our subsidiaries that have faced similar problems would be liable for the amount of the assessments and potentially for interest and penalties on such amounts, and could potentially be liable for significant additional amounts.

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may potentially impact the financial results of our business activities.

Russian transfer pricing rules entered into force in 1999, giving Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20.0%. Controlled transactions include transactions between related entities and certain other types of transactions between independent parties, such as foreign trade transactions or transactions with significant (by more than 20.0%) price fluctuations. The Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and arbitration courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge our prices and propose adjustments. If such price adjustments are upheld by the Russian arbitration courts and implemented, our future financial results could be adversely affected. In addition, we could face significant losses associated with the assessed amount of prior tax underpaid and related interest and penalties, which would have an adverse impact on our financial condition and results of operations.

Risks Relating to the ADSs, notes and the Trading Market

Certain of our shareholders are engaged in preliminary discussions in relation to a possible transaction which may result in the acquisition of all or a majority of our shares by Groupe Danone. Such transaction, if consummated, may result in a change of control under our loan agreements and/or force holders of our ADSs to tender their shares to Groupe Danone.

As of the date of this annual report, certain of our shareholders are engaged in preliminary discussions in relation to a possible transaction, which may or may not result in the acquisition of all or a majority of our shares by Groupe Danone. We have, at the request of these shareholders, cooperated in such preliminary discussions. As of the date of this annual report, no agreement with respect to price or other material terms or conditions of a transaction has been reached. Moreover, no assurance can be made that these discussions will continue or that any agreement with respect to a transaction will be reached, or, if reached, what the form of the transaction will be. The terms of any such transaction may or may not be extended to our public shareholders. However, if consummated, such transaction may result in a change of control under our various loan agreements and/or force holders of our ADSs to tender their shares to Groupe Danone. See "—We may not have the ability to raise the funds necessary to finance a prepayment of certain of our outstanding indebtedness in case of a change of control event" below for a description of the change in control event in the Loan Agreement relating to the Eurobond.

Because the depositary may be considered the beneficial holder of the shares underlying the ADSs, these shares may be arrested or seized in legal proceedings in Russia against the depositary.

Because Russian law may not recognize ADS holders as beneficial owners of the underlying shares, it is possible that you could lose all your rights to those shares if the depositary's assets in Russia are seized or arrested. In that case, you would lose all the money you have invested.

Russian law might treat the depositary as the beneficial owner of the shares underlying the ADSs. This would be different from the way other jurisdictions, such as the states of the United States, treat ADSs. In those jurisdictions, although shares may be held in the depositary's name or to its order and it is therefore a "legal" owner of the shares, the ADS holders are the "beneficial," or real owners. In those jurisdictions, no action against the depositary, the legal owner, would ever result in the beneficial owners losing their shares. Because Russian law may not make the same distinction between legal and beneficial ownership, it may only recognize the rights of the depositary in whose name the shares are held, not the rights of ADS holders, to the underlying shares.

Thus, in proceedings brought against a depository, whether or not related to shares underlying ADSs, Russian courts may treat those underlying shares as the assets of the depository, open to seizure or arrest. We do not know yet whether the shares underlying ADSs may be seized or arrested in Russian legal proceedings against a depository. In the past, a lawsuit has been filed against a depository bank other than Bankers Trust Company seeking the seizure of various Russian companies' shares represented by ADSs. In the event that this type of suit were successful in the future against a depository bank, and if the shares are seized or arrested, the ADS holders involved would lose their rights to the underlying shares.

Because the rights of nominee holders and depositaries are not well developed, you will be unable to direct the voting of the shares represented by our ADSs and may not be able to obtain some of the benefits due to you as a holder of our ADSs.

The Federal Law on the Securities Markets provides that shares may be held by nominees entitled to vote the shares on behalf of the beneficial owner upon receipt of the appropriate instructions from the beneficial owner. The nominee is required to provide information on the beneficial holder of the shares upon the demand of the registrar. The custodian under the deposit agreement, OOO Deutsche Bank, is registered as the nominee owner for Bankers Trust Company, as depository; under Russian law, however, Bankers Trust Company in turn might be viewed as the owner of the shares underlying the ADSs. Since Russian law prohibits a shareholder from voting in more than one way on any agenda item, the depository may not be in a position to vote the shares it holds on behalf of ADR holders other than as a block. Further, in the past, nominees have reportedly experienced difficulty in convincing registrars of their right to represent the beneficial holder and in convincing tax authorities of the right of beneficial holders to obtain the benefits available under an applicable tax treaty. This could result in your being unable to obtain some of the benefits due to you as a holder of our ADSs, including the ability to exercise your voting rights.

Even if Russian legislation is amended to allow for voting of our ADSs, your voting rights with respect to the shares represented by our ADSs are limited by the terms of the deposit agreement for our ADSs.

Even if Russian legislation is amended to allow for voting of our ADSs, you will be able to exercise voting rights with respect to the common shares represented by ADSs only in accordance with the provisions of the deposit agreement relating to the ADSs. However, there are practical limitations upon your ability to exercise your voting rights due to the additional procedural steps involved in communicating with you. For example, the Federal Law on Joint Stock Companies requires us to notify shareholders at least 20 days in advance of any meeting. Our common shareholders will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

As an ADS holder, you, by comparison, will not receive notice directly from us. Rather, in accordance with the deposit agreement, we will provide the notice to the depository. The depository has undertaken in turn, as soon as practicable thereafter, to mail to you the notice of such meeting, voting instruction forms and a statement as to the manner in which instructions may be given by holders. To exercise your voting rights, you must then instruct the depository how to vote its shares. Because of this extra procedural step involving the depository, the process for exercising voting rights may take longer for you than for holders of common shares. ADSs for which the depository does not receive timely voting instructions will not be voted at any meeting. Except as described in this document, you will not be able to exercise voting rights with respect to the shares of common stock that underlie the ADSs.

The price of our ADSs may be highly volatile.

The liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Although our ADS holders are entitled to withdraw the equity shares underlying the ADSs from the depository at any time, there is no public market for our shares. This, in turn, may affect the liquidity of our ADSs and their trading price. In addition, the trading prices of the ADSs may be subject to wide fluctuations in response to many factors, including:

- variations in our operating results and other food and beverage companies;
- variations in national and industry growth rates;
- actual or anticipated announcements of technical innovations or new products or services by us or our competitors;
- changes in governmental legislation or regulation;
- general economic conditions within our business sector or in Russia; or
- extreme price and volume fluctuations on the Russian stock market.

In addition, because there was no prior trading market for the notes issued in May 2003 there can be no assurance that a liquid market will develop for the notes, that holders of the notes will be able to sell their notes for a price that reflects their value or at all. See "Item 8. Financial Information—B. Significant Changes" for a description of the notes.

You may be unable to repatriate your earnings from our ADSs.

Russian currency control legislation pertaining to payment of dividends currently provides that ruble dividends on common stock may be paid to the depository or its nominee and converted into U.S. dollars by the depository for distribution to owners of ADSs without restriction. Also, ADSs may be sold by non-residents of Russia for U.S. dollars outside Russia without regard to Russian currency control laws as long as the buyer is not a Russian resident.

Under the terms of the deposit agreement, there is no restriction on the sale of our ADSs to Russian residents. Russian currency control legislation, however, effectively limits the ability of a non-resident of Russia to sell our ADSs to a Russian resident. Without a Central Bank license, which in practice is difficult to obtain, Russian residents must purchase securities for rubles and may not purchase foreign-currency denominated securities, such as our ADSs. Accordingly, an ADS holder seeking to sell its holding to a Russian resident would need first to convert its ADSs into shares and establish a special ruble investment account, while the repatriation of proceeds from the sale of securities in Russia may be subject to costs and delays.

The ability of the depository and other persons to convert rubles into U.S. dollars is also subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of rubles into foreign currencies outside of Russia and no viable market in which to hedge ruble-currency and ruble-denominated investments.

Future sales of common stock or ADSs may affect the market price of our common stock and ADSs.

Sales, or the possibility of sales, of substantial numbers of shares of our common stock or ADSs in the public market following our initial public offering could have an adverse effect on the market trading prices of the ADSs. We now have 44,000,000 authorized shares of common stock, all of which are outstanding. Our subsequent equity offerings may reduce the percentage ownership of our shareholders. Newly issued stock may have rights, preferences or privileges senior to those of common stock.

You may have limited recourse against us and our officers and directors because we generally conduct our operations outside the United States and substantially all of our officers and directors reside outside the United States.

Our presence outside the United States may limit your legal recourse against us. We do not have any presence in the United States and are incorporated under the laws of the Russian Federation. Substantially all of our directors and executive officers named in this document reside outside the United States, principally in Russia. All or a substantial portion of our assets and the assets of our officers and directors are located outside the United States.

As a result, you may not be able to effect service of process within the United States on us or on our officers and directors. Similarly, you may not be able to obtain or enforce U.S. court judgments against us, our officers and directors, including actions based on the civil liability provisions of the federal securities laws of the United States. There is no treaty between the United States and Russia providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. These limitations may deprive you of effective legal recourse for claims related to your investment in the ADSs.

The deposit agreement provides for disputes, controversies and causes of action brought by any party thereto against us to be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association; provided that any controversy, claim or cause of action relating to or based upon the provisions of the federal securities laws of the United States or the rules or regulations promulgated thereunder may, but need not, be submitted to arbitration. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the inexperience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favor of foreign investors, Russian courts' inability to enforce such orders (for example, upon a finding that the enforcement of an arbitration award violates public policy or a supervening law of the Russian Federation), and corruption.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

We have a substantial amount of outstanding indebtedness, primarily consisting of the obligations we entered into in connection with our Eurobond offering, our ruble bonds, bank loans and obligations under equipment financing. As at December 31, 2002, our consolidated total debt was approximately US\$186.0 million of which US\$115.1 million was secured by equipment or inventory. On April 15, 2003 we issued RUR1.5 billion ruble-denominated bonds (US\$48 million at the April 15, 2003 exchange rate), and on May 21, 2003 we completed a \$150 million Eurobond offer. See "Item 8. Financial Information—B. Significant Changes" for a description of our bond offerings.

Our ability to make payments on and to refinance our indebtedness, and to fund planned capital expenditures and research and development efforts will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, we may default under the terms of our indebtedness, and the holders of our indebtedness would be able to accelerate the maturity of such indebtedness, which could cause defaults under our other indebtedness.

We cannot assure you that our business will generate sufficient cash flow from operations, that currently anticipated cost savings and operating improvements will be realized on schedule or that future borrowings will be available to us under our credit facilities in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including the Loan relating to the Eurobond, on or before maturity, sell assets, reduce or delay capital expenditures or seek additional capital. We cannot assure you that any refinancing or additional financing would be available on the commercially reasonable terms, or whether our assets could be sold, or if sold, whether the proceeds therefrom would be sufficient to meet our debt service obligations. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance debt on commercially reasonable terms, would materially and adversely affect our business, financial condition, results of operations and business prospects.

Covenants in our debt agreements, including the Loan Agreement relating to the Eurobond, restrict our ability to borrow and invest, which could impair our ability to expand or finance our future operations.

Our short-term and long-term debt agreements, including the Loan Agreement relating to the Eurobond, contain covenants that impose operating and financial restrictions on us and our subsidiaries. These restrictions significantly limit, and in some cases prohibit, among other things, our and certain of our subsidiaries' ability to incur additional debt, provide guarantees, create liens on assets or enter into business combinations. Failure to comply with these restrictions would constitute a default under our debt agreements, including the Loan Agreement and Loan relating to the Eurobond, and any of our other senior debt containing cross default provisions could become immediately due and payable. In addition, some of our debt agreements contain provisions which permit our lenders to require us to repay our debt to them in the event of a deterioration in our financial condition.

We may not have the ability to raise the funds necessary to finance a prepayment of certain of our outstanding indebtedness in case of a change of control event.

The terms of the Loan Agreement relating to the Eurobond and some of our other debt agreements require that we prepay the debt upon the occurrence of certain change of control events. A change of control event will generally be triggered at such time as any person or entity (excluding several of our major shareholders acting individually or as a group): (i) is or becomes interested, directly or indirectly, in the aggregate of more than 50% of our capital stock with voting power, or (ii) has or acquires the right to appoint or remove a majority of our Board of Directors, or (iii) has or acquires control of a majority of our voting rights, in each case in circumstances where, solely as a result of any such event as specified by the relevant rating agencies, a rating decline (as further described in the Loan Agreement relating to the Eurobond) would result.

However, it is possible that we will not have sufficient funds at the time of the change of control to satisfy such prepayment obligations, or to refinance the debt on commercially reasonable terms, which would materially and adversely affect our business, financial condition, results of operations and business prospects.

If the Central Bank of Russia requires us to hold a license in order to make payments in U.S. dollars under the Loan relating to the Eurobond or the Guarantee, we will need to apply for a license. Without a license, we may be restricted in our ability to make payments under the Loan Agreement relating to the Eurobond and/or the Guarantee.

Central Bank of Russia regulations are subject to substantial change and varying interpretations which complicate the process of determining whether a license is needed as well as the process of obtaining a permission. With respect to the Loan relating to the Eurobond and the Guarantee by three of our subsidiaries, we have received legal advice that a license is not required and that the Loan and the Guarantee would only need to be registered if the borrower were a Russian licensed bank. There is

some uncertainty as to whether or not a license would be required following an event of default under the Loan Agreement relating to the Eurobond, depending on who would be deemed to be the lender at that time. If the Central Bank of Russia clarifies or advises in the future that a foreign currency license is required for payments by us under the Loan and/or our subsidiaries under the Guarantee, we will need to apply for a license. We cannot assure you that we will receive such a license in such case. If we do not receive such a license, we cannot assure you that we will be able to make payments on the Loan or that our guarantor subsidiaries will be able to make payments under the Guarantee in U.S. dollars.

Foreign judgments may not be enforceable against us.

Judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognized by courts in Russia only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered. No such treaty exists between the United States and the Russian Federation or the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments. The Loan Agreement relating to the Eurobond and the Guarantee provide that controversies, claims and causes of action brought by any party thereto against us may be settled by arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law, also known as UNCITRAL. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the inexperience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favor of foreign investors and Russian courts' inability to enforce such orders.

Upon the occurrence of certain circumstances described in the Loan Agreement relating to the Eurobond we may or must prepay the Loan.

Under the terms of the Loan Agreement relating to the Eurobond we may, subject to certain conditions, prepay the Loan relating to the Eurobond if we are required to increase our payments for tax reasons regardless of whether the increased payment obligation results from any change in the applicable tax laws or treaties or from the change in application of existing tax laws or treaties. We may also prepay the Loan if we are required to indemnify the Bank in respect of Increased Costs (as defined in the Loan Agreement). We must prepay the Loan if it becomes illegal for the Bank to make or fund the Loan, to allow the Loan to remain outstanding, or to maintain its agreed funding source of the Loan. In case of any such prepayment, all outstanding notes would be redeemable at par with accrued interest. We cannot assure you that we would be able to satisfy such prepayment obligations, or to refinance the debt on commercially reasonable terms, which would materially and adversely affect our business, financial condition, results of operations and business prospects.

You may not have an effective remedy under U.S. securities laws against Arthur Andersen ZAO in connection with a material misstatement or omission in our financial statements for the years ended December 31, 2000 and 2001.

Our consolidated and combined financial statements for the years ended December 31, 2000 and 2001 were audited by Arthur Andersen ZAO, which issued a publicly available audit report expressing its unqualified opinion with respect thereto. Arthur Andersen ZAO has ceased to operate in Russia and, as a result, has not reissued the audit report included in this document relating to our consolidated and combined financial statements for the years ended December 31, 2000 and 2001. As a result, you will not be able to recover against Arthur Andersen ZAO under U.S. securities laws for any untrue statements of a material fact contained in the financial statements audited by Arthur Andersen

ZAO, or any omissions to state a material fact required to be stated therein. Therefore, you may have no effective remedy against Arthur Andersen ZAO in connection with a material misstatement or omission in these financial statements. Additionally, we have not requested our current auditors to re-audit our consolidated and combined financial statements for the years ended December 31, 2000 and 2001 and cannot assure you that a re-audit by our current auditors would not have resulted in a restatement or uncovered an untrue statement of material fact or an omission to state a material fact in such financial statements.

Risks Relating to the Russian Federation

Political Risks

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a pluralist democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, as well as to unrest by particular social and ethnic groups. Significant political instability could have a material adverse effect on the value of foreign investments in Russia, including the value of our ADSs and/or notes.

Governmental instability could adversely affect the value of investments in Russia and the value of our ADS and/or notes.

The composition of the Russian government—the prime minister and the other heads of federal ministries—has at times been highly unstable. Six different prime ministers, for example, headed governments between March 1998 and May 2000. On December 31, 1999, President Yeltsin resigned and Vladimir Putin was subsequently elected president on March 26, 2000. While President Putin has maintained governmental stability and policies generally oriented towards the continuation of economic reforms, no assurance can be given that such conditions will continue over time. State Duma elections are to be held at the end of 2003 and presidential elections in 2004. The value of investments in Russia, including in our ADSs and notes, could be reduced and our prospects could be harmed if governmental instability recurs or if reform policies are reversed.

Conflict between federal and regional authorities and other conflicts could create an uncertain operating environment that would hinder our long-term planning ability and could adversely affect the value of investments in Russia and the value of our ADSs and notes.

The Russian Federation is a federation of republics, territories, regions, cities of federal importance and autonomous areas. The delineation of authority among the members of the Russian Federation and the federal governmental authorities is, in many instances, uncertain and sometimes contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may result in political instability. This lack of consensus hinders our long-term planning efforts and creates uncertainties in our operating environment, both of which may prevent us from efficiently carrying out our expansion plans.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions, and in certain cases, to military conflict. Russian military forces have been engaged in Chechnya in the past and are currently involved in ground and air operations there. The spread of violence, or its intensification, could have significant political consequences. These include the imposition of a state of emergency in some or all of the Russian Federation. These events could materially adversely affect the value of investments in Russia, including in the value of our ADSs and notes.

Economic Risks

Economic instability in Russia could adversely affect consumer demand, particularly for premium products, materially adversely affecting our expansion plans.

Since the dissolution of the Soviet Union, the Russian economy has experienced:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and grey market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organized crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. In particular, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its ruble-denominated securities, the Central Bank of Russia stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the ruble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets.

These problems were aggravated by the near collapse of the Russian banking sector after the events of August 17, 1998, as evidenced by the revocation of the banking licenses of a number of major Russian banks. This further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies, and resulted in the losses of bank deposits in some cases.

There can be no assurance that recent trends in the Russian economy—such as the increase in the gross domestic product, a relatively stable ruble, and a reduced rate of inflation—will continue or will not be abruptly reversed. Moreover, the recent fluctuations in international oil and gas prices, the strengthening of the ruble in real terms relative to the U.S. dollar and the consequences of a relaxation in monetary policy, or other factors, could adversely affect Russia's economy and our business in the future, particularly our expansion plans.

Russia's physical infrastructure is in very poor condition, which could disrupt normal business activity.

As a general matter, Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are the rail and

road networks, power generation and transmission; communication systems; and building stock. For example, during the winter of 2000-2001, electricity and heating shortages in Russia's far-eastern Primorye region seriously disrupted the local economy. Road conditions throughout Russia are poor, with many roads not meeting minimum requirements for usability and safety.

The deterioration of Russia's physical infrastructure harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Russia and can interrupt business operations, and this could have a material adverse effect on our business and the value of our ADSs and notes.

Fluctuations in the global economy may adversely affect Russia's economy, limiting our access to capital and adversely affecting the purchasing power of our customers and thus our business.

Russia's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. Additionally, because Russia produces and exports large amounts of natural gas and oil, the Russian economy is especially vulnerable to the price of natural gas and oil on the world markets and a decline in the price of natural gas and oil could slow or disrupt the Russian economy. These developments could severely limit our access to capital and could adversely affect the purchasing power of our customers and thus our business.

Social Risks

Crime and corruption could disrupt our ability to conduct our business and could materially adversely affect our financial condition and results of operations.

The political and economic changes in Russia since the early 1990s have resulted in reduced policing of society and increased lawlessness. Reportedly, organized criminal activity has increased significantly, particularly in large metropolitan centers. Property crime in large cities has increased substantially. In addition, the Russian and international press have reported high levels of official corruption in Russia and other countries of the CIS, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials have engaged in selective investigations and prosecutions to further commercial interests of the government and individual officials. Additionally, published reports indicate that a significant number of Russian media regularly publish slanted articles in return for payment. Our operations could be adversely affected by illegal activities, corruption or by claims implicating us in illegal activities, which could materially adversely affect the value of our ADSs and notes.

Social instability could increase support for renewed centralized authority, nationalism or violence and thus materially adversely affect our ability to conduct our business effectively.

The failure of the government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labor and social unrest. For example, in 1998, miners in several regions of Russia, demanding payment of overdue wages, resorted to strikes which included blocking major railroads. Such labor and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority; increased nationalism, with restrictions on foreign involvement in the economy of Russia; and increased violence. Any of these could restrict our operations and lead to the loss of revenue, materially adversely affecting us.

Risks Relating to the Russian Legal System and Russian Legislation

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and for business activity.

Russia is still developing the legal framework required by a market economy. Several fundamental Russian laws have only recently become effective. The recent nature of much of Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, Russian legislation often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. Among the risks of the current Russian legal system are:

- since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Federal Constitution, the 1995 Civil Code, by other federal laws, and by decrees, orders and regulations issued by the president, the government and federal ministries, which are, in turn, complemented by regional and local rules and regulations. These legal norms, at times, overlap or contradict one another. In addition, certain important bills remain to be adopted in Russia;
- there is a lack of judicial and administrative guidance on interpreting Russian legislation;
- corruption within the judiciary;
- the relative inexperience of judges and courts in interpreting Russian legislation;
- a high degree of discretion on the part of governmental authorities; and
- bankruptcy procedures are not well developed and are subject to abuse.

All of these weaknesses could affect our ability to enforce our rights to intellectual property or under contracts, or to defend ourselves against claims by others. Furthermore, we cannot assure you the regulators, judicial authorities or third parties will not challenge our compliance with applicable laws, decrees and regulations.

Lack of independence and the inexperience of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent us or you from obtaining effective redress in a court proceeding, materially adversely affecting an investment in our ADSs and notes.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remain largely untested. The court system is understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organized in a manner that facilitates understanding. The Russian judicial system can be slow. Enforcement of court orders can in practice be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims. We may be subject to such claims and may not be able to receive a fair hearing. Additionally, court orders are not always enforced or followed by law enforcement agencies.

These uncertainties also extend to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalization. However, it is possible that due to the lack of experience in enforcing these provisions and due to potential political changes, these protections would not be enforced in the event of an attempted expropriation or nationalization, or if our business is reorganized. Some government entities have tried to renationalize privatized businesses. Expropriation or nationalization of any of our entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on our business and on the value of our ADSs and notes.

Unlawful or arbitrary government action may have an adverse affect on our business and the value of an investment in our ADSs and notes.

Government authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without hearing or prior notice, and sometimes in a manner that is contrary to law. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Unlawful or arbitrary governmental actions have included withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities also used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations and/or to void transactions, often for political purposes. Unlawful or arbitrary government action, if directed at us, could have a material adverse effect on our business and on the value of our ADSs and notes.

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

The Civil Code and the Federal Law on Joint Stock Companies generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one person or entity is capable of determining decisions made by another. The person or entity capable of determining such decisions is called an effective parent. The person or entity whose decisions are capable of being so determined is called an effective subsidiary. The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies, and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent which caused the effective subsidiary to take action(s) or fail to take action(s) knowing that such action(s) or failure to take action(s) would result in losses. Accordingly, in our position as effective parent of the subsidiaries in which we own, directly or indirectly, more than 50% of the charter capital, we could be liable, in the cases described above, for their debts. The total liabilities (indebtedness, including, but not limited to, vendor financing obligations, and other payables) of our effective subsidiaries, as of December 31, 2002, amounted to \$265.4 million, excluding intercompany indebtedness, deferred tax liabilities and government grants. In addition, our subsidiaries have other liabilities. This total liability, which is joint and several with the liability of the subsidiary, could materially adversely affect us.

Shareholder rights provisions under Russian law may impose additional costs on us, which could cause our financial results to suffer.

Russian law provides that shareholders, including holders of our ADSs, that vote against or abstain from voting on certain matters have the right to sell their shares to us at market value in accordance with Russian law. The decisions that trigger this right to sell shares include:

- a reorganization;

- the approval by shareholders of a "major transaction," which, in general terms, is a transaction involving property worth more than 50% of the book value of our assets calculated according to the Russian accounting standards, regardless of whether the transaction is actually consummated; and
- the amendment of our charter in a manner that limits shareholder rights.

Our obligation to purchase shares in these circumstances, which is limited to 10% of our net assets calculated, according to the Russian accounting standards, at the time the matter at issue is voted upon, could have an adverse effect on our cash flow and our ability to service our indebtedness.

Changes in the Russian tax system could materially adversely affect an investment in our ADSs and notes.

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others:

- income taxes;
- value-added tax;
- excise taxes;
- social and pension contributions; and
- property tax.

All of these taxes are subject to change. Additionally, each region may establish regional sales tax applicable to sales of goods and services to individuals at a rate of up to 5%.

Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often unclear or nonexistent. Accordingly, few precedents with regard to tax clarifications have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations, such as the Ministry of Taxes and Duties and its various inspectorates, creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas including, for example, customs matters, are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review by a superior authority during the three-year period. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems.

The taxation system in Russia is subject to frequent changes and inconsistent enforcement at the federal, regional and local levels. In some instances, new tax rules have been given retroactive effect. In addition to our substantial tax burden, these conditions complicate our tax planning and related business decisions. For example, tax laws are unclear with respect to the deductibility of certain expenses and at times we have taken a position that is aggressive in this regard, but that we consider to be in compliance with current law. This uncertainty exposes us to significant fines and penalties and to enforcement measures despite our best efforts at compliance, and could result in a greater than expected tax burden. To date, the system of tax collection has been relatively ineffective, resulting in the continual imposition of new taxes in an attempt to raise government revenues. These factors raise the risk of a sudden imposition of arbitrary or onerous taxes on us. This could adversely affect the value of our ADSs and notes.

There is a risk of imposition of new taxes on us, which could adversely affect the price or value of our ADSs and notes. During 2000, 2001 and 2002, the Russian government undertook a revision of the

Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and the overall tax burden on businesses and simplify the tax laws. However, the new tax laws continue to rely heavily on the judgments of local tax officials and fail to address many existing problems. Many issues associated with the practical application of new legislation are unclear and this complicates our tax planning and related business decisions. This uncertainty may expose us to fines and penalties. Even if further reforms of the Tax Code are enacted, they may not result in significant reduction of the tax burden for Russian companies and the establishment of a more efficient tax system. Conversely, additional tax collection measures may be introduced. Accordingly, we may have to pay significantly higher taxes, which could have a material adverse effect on our business.

Moreover, financial statements of Russian companies are not consolidated for tax purposes. Therefore, each of our Russian entities pays its own Russian taxes and may not offset its profit or loss against the loss or profit, respectively, of another of our entities. In accordance with legislation that entered into force on January 1, 2002, domestic dividends will be subject to withholding tax at 6%, though in the case of dividends flowing through a multitiered corporate structure, taxation at each level of dividend payment may be reduced.

Other Risks

We have not independently verified information regarding our competitors, nor have we independently verified official data from Russian government agencies.

We have derived substantially all of the information contained in this document concerning our competitors from publicly available information, including press releases and filings under U.S. securities laws, and we have relied on the accuracy of this information without independent verification.

In addition, some of the information contained in this document has been derived from official data of Russian government agencies. The official data published by Russian federal, regional and local governments are substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this document must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

The veracity of some official data released by the Russian government may be questionable. In the summer of 1998, the Director of the Russian State Committee on Statistics ("Goskomstat") and a number of his subordinates were arrested and charged with manipulating economic data to hide the actual output of various companies.

Item 4 Information on Our Company

A. History and Development

We trace our history back to 1992, when a group of individuals formed an enterprise which began leasing a production line at the Lianozovo Dairy Plant and purchasing juice concentrates and packaging materials. On November 25, 1992, we produced the first carton of juice carrying the Wimm-Bill-Dann brand name. We selected this brand name to attract consumers who preferred products with foreign-sounding names due to perceived higher quality and novelty and, since its introduction, the "Wimm-Bill-Dann" name has become a brand name recognized in a substantial percentage of Russian households.

To take advantage of the opportunities arising from the privatization of Russian state-owned assets, our current shareholders then began acquiring shares in the Lianozovo Dairy Plant in Moscow, and

continued to expand their juice product enterprises. Our growth has been accomplished, in part, through significant acquisitions, including the following:

- In 1995, we acquired majority control of the Lianozovo Dairy Plant, and acquired an additional stake in 2001;
- In 1996 and 1997, we acquired majority stakes in the Moscow Baby Food Plant, the Tsaritsino Dairy Plant and the Ramenski Dairy Plant, and we acquired an additional stake in the Tsaritsino Dairy Plant in 2001 and in the Moscow Baby Food Plant in 2002;
- In 1998 and 1999, we began to expand into regions outside Moscow, acquiring dairy plants in Novosibirsk, Nizhny Novgorod and Vladivostok;
- In 2000 and 2001, we acquired majority stakes in dairy plants in Bashkortostan and the Krasnodar region in Russia, as well as dairy plants in Kiev, Ukraine and Bishkek, Kyrgyzstan;
- In 2001, we completed the acquisition of additional 15% interests in the Lianozovo Dairy Plant and the Tsaritsino Dairy Plant;
- In 2001, we acquired 100% interests in dairy plants in the Altaisky and Voronezh regions of Russia;
- In April and May 2002, we acquired control of three dairy plants in the Krasnodar, Belgorod and Samara regions of Russia;
- In June 2002, we acquired control of a dairy plant in Kharkov, Ukraine;
- In June 2002, we acquired a 100% interest in the Roska Dairy Plant in St. Petersburg;
- In October 2002, we acquired control of Depsona in Tula and a large warehouse complex in the Moscow region;
- In November 2002, we acquired control of a dried milk plant in Buryun, Ukraine; and
- In January 2003, we acquired a 100% interest in Sibirsky Syr, a warehousing facility in Novosibirsk.

Additionally, in the latter part of 2000, we began a corporate and organizational restructuring to facilitate our initial public offering and our future expansion, both within the CIS and internationally. As part of this restructuring, we disposed of our interests in Expobank and four breweries. Our operations are currently organized into three divisions: dairy products, juice products and water products, all operating under the umbrella of our holding company, Wimm-Bill-Dann Foods OJSC, which was incorporated on May 31, 2001.

We completed our initial public offering on February 14, 2002 and listed our shares of common stock, represented by American Depositary Shares, or ADSs, on the New York Stock Exchange under the symbol "WBD." Each ADS represents one underlying share of our common stock.

For a description of our principal capital expenditures and divestitures since our initial public offering, as well as those currently in progress, see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources."

Our legal name is Wimm-Bill-Dann Foods OJSC, and we are incorporated as an open joint stock company under the laws of the Russian Federation with registration number 103 7700236738. We operate in the Russian Federation under a number of different trademarks and brand names, as more fully described below in "—B. Business Overview—Current Operations—Our products and brands." Our business objectives, set forth in Article 4 of our charter, include the production and sale of food products, including milk and sour milk products, mineral water, fruit and vegetable juices and beverages and children's food. Our head office is located at 16 Yauzsky Boulevard, Moscow 109028, Russian

Federation, and our telephone number is +7-095-733-9726. We have appointed Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware 19715 as our registered agent for service of process.

B. Business Overview

We are a large, fast-growing Russian manufacturer of dairy and juice products. In 2002, approximately 68% of our net revenues were derived from the sale of dairy products and approximately 32% from the sale of juice products. Since our founding in 1992, we have become a market leader in Russia in both the dairy and juice products markets. In the dairy products market, according to an AC Nielsen study of nine major cities located throughout Russia, including Moscow and St. Petersburg, we were the market leader (with the exception of open-air markets), during 2002 in all packaged dairy markets except for pasteurized milk. Our market shares by sales volume were 33% in traditional dairy products, 44% in enriched dairy products and 45% in yogurt and dessert dairy products. In the juice products market, in 2002, according to the Russian Union of Juice Producers, we had a 31% share of the Russian juice market. According to a Business Analytica survey, from September through December 2002, we had a 43% share of the juice market in Moscow, the largest juice-consuming area in Russia. As of April 1, 2003, we had 23 manufacturing operations in over 21 locations in Russia and the other countries of the Commonwealth of Independent States, or CIS, and our distribution network encompassed over 70 cities in the CIS.

Our goal is to offer our consumers quality food and beverage products through the use of carefully selected raw materials, modern production technology and strict quality control. All of our products are made according to our own recipes and reflect our understanding of consumer demand.

Our principal dairy products include

- Traditional products, such as sterilized and pasteurized milk, butter, cream and cheese, as well as traditional sour-milk products such as kefir, cottage cheese, soft cottage cheese and sour cream;
- Yogurts and dairy desserts, such as traditional and drinking yogurt, mousse, fruit-flavored milk and kefir, puddings and flavored cottage cheese;
- Enriched dairy products, such as sterilized milk, yogurt and sour-milk products;
- Dairy products for infants under the age of 3; and
- Cheese products, including hard and processed cheese.

Our juice products include

- Juice and nectars produced from juice concentrate;
- A traditional berry-juice-based drink;
- Other juice-based drinks; and
- Juice products for children.

We also commenced the commercial production of bottled natural mineral water in March 2003.

Our principal geographic market is Russia, with the Central Region of Russia, encompassing Moscow, Voronezh and Nizhny Novgorod, being the most significant. Each of our production and distribution facilities is owned by a separate subsidiary of ours.

Business Strategy

We aim to retain our position as a leading nationwide producer of quality food and beverage products and to expand our production and sales in order to attain higher revenues, cash flow and earnings. To achieve these objectives, we use the following strategies:

- Focus on and expand our core areas of business: dairy and juice products.
- Expand the geographic reach and the production capacity of our core businesses.
- Improve operating efficiencies.
- Expand into the production of new dairy and beverage products.

Focus on and expand our core areas of business: dairy and juice products. We focus on two areas of food and beverage consumption: dairy and juice products. We believe that we are well-positioned to retain and enhance our leading positions in these core businesses and related businesses by:

- ***Leveraging market leadership.*** We believe that, as the Russian dairy and juice products markets mature, only leading national and local brands will be able to maintain their competitive positions, and that significant consolidation is likely. As we continue to focus on our brands and products with leading market shares in their respective segments, we also intend to pursue selective acquisition opportunities to enhance our market leadership in our core businesses.
- ***Reviewing our brand portfolio and focusing our marketing efforts on key brands.*** We will continue to review our brand portfolio with a view towards maintaining only our best-known brands, brands with high operating margins and new brands with significant potential. We also intend to strengthen the selling power and premium status of our best-known brands by consolidating under them our various existing product groups and the product groups of businesses we acquire and by using them to enter new markets and launch new products. For instance, we initially used our "Little House in the Village" brand to market only milk in Moscow, but now use this brand to sell a wide range of dairy products such as milk and sour-milk products across Russia. We also introduced in 2001 the "Ginger Up" brand which we use for our dairy and juice products targeted at children. Our overall goal is to ensure that all of our brand names are associated with quality products in all of the markets in which we operate.
- ***Increasing share of value-added products.*** We intend to continue to invest in production facilities and increase our marketing and new product development expenditures in order to increase our production and sales volume of value-added products, as opposed to commodity products often associated with narrower operating margins. In particular, we are seeking to increase our sales of yogurt, desserts, enriched dairy products, mixed juices and new flavor juice products as a percentage of our total sales volume. In this connection, we introduced various yogurt and dessert products in 2002.
- ***Promoting dairy product and juice consumption culture.*** We believe that the markets for juice and certain dairy products in Russia and other countries of the CIS are still underdeveloped. We intend to promote continued growth in the consumption of these products by increasing the availability of our quality products and public awareness of these products through marketing and advertising activities.

Expand the geographic reach and the production capacity of our core businesses. Since 2000, we have been acquiring production units in various regions of Russia and the CIS. We believe that the establishment of large production facilities in the regions that are characterized by high population density and the availability of abundant raw materials is an efficient development strategy. Among the advantages of having production capacities in the regions of Russia are the avoidance of high transportation costs, the availability of a low-cost labor force and the availability of low cost milk

resources, which are generally up to 20% cheaper in the regions than in Moscow. We expect to rely on our existing distribution networks and to expand our distribution units geographically as we increase our production capacity.

We believe that the fragmented nature of the dairy industry in Russia will continue to give rise to opportunities for strategic acquisitions, constructing new capacity and attracting new customers. In turn, we expect these combined factors to bring about an increase in our geographic coverage. We intend to continue to implement this strategy, which we expect will involve the investment of approximately \$610 million over the next three years for the acquisition and construction of production capacity and new equipment, as follows:

- *Dairy.* We have developed and are now implementing a regional expansion program which contemplates the acquisition and construction of new plants in Yekaterinburg and Omsk in Russia, Dnepropetrovsk and Donetsk in Ukraine, as well as in Uzbekistan, Kazakhstan and other areas of the former Soviet Union. We intend to purchase prominent dairy enterprises in these regions, invest significant amounts into their modernization, replace their management systems with our own and integrate their products under our brands, helping ensure that these plants maintain leading positions in their regional markets.
- *Juice and juice products.* We intend to increase our juice production capacity at existing plants that we believe have the potential to become supply centers for those regions that offer substantial potential for sales growth. We will continue to add new juice production capacity at our Ramenski and Tsaritsino Plants in Moscow, Timashevsk Dairy Plant in Krasnodar and Siberian Dairy Plant in Novosibirsk in Russia, as well as at the Kiev Dairy Plant in Ukraine and the Bishkek Dairy Plant in Kyrgyzstan. We plan to expand our juice distribution network in order to offer our customers increased product availability, as well as to provide local client service and logistical support. We also intend to acquire additional juice concentrate production plants to decrease our reliance on imported juice concentrate.

Improve operating efficiencies. We intend to improve the quality of our products, reduce our costs, increase our cash flow and improve employee productivity through:

- *Modernizing existing production facilities.* We plan to continue to invest in expanding and modernizing our existing production facilities, with a particular focus on newly-acquired assets that are intended to become supply centers for growing markets. Such modernization will include the installation of modern processing equipment in order to reduce our production, raw material and labor costs through higher operating efficiencies and lower raw material waste. It will also enable us to increase our production of value-added products.
- *Controlling costs.* We routinely review our cost base to identify costs that may be reduced by improving technology, modernizing production assets, replacing high-cost suppliers and streamlining our management structure. We intend to continue to increase gradually the share of our raw materials acquired from local suppliers, which tend to be cheaper than imported materials. We also regularly review our workforce, particularly at newly-acquired plants, to help ensure productivity. In addition, we also attempt to exploit synergies within our group of companies through the pooling of production, sales, purchasing and administrative resources. We have engaged the Boston Consulting Group (BCG) to assist us in developing a cost containment policy.
- *Centralized management.* We continue to follow our business development strategy of strengthening our centrally-managed corporate function in order to further streamline and optimize our distribution mechanisms, pricing policy, brand management, logistics and marketing policy among our subsidiaries. We have appointed seven regional directors whose role is to manage and coordinate our production, sales and distribution in their respective regions.

- *Delivery control system.* We intend to implement a delivery control system that will enable us to monitor delivery logistics at all stages, and thereby optimize efficiency while minimizing delivery costs.
- *Increasing direct distribution to retailers.* We will continue our efforts to increase our direct distribution to retailers while maintaining our relationships with independent distributors. Direct distribution enables us to more efficiently monitor supply and demand and respond to market fluctuations with greater flexibility.
- *Minimizing dairy distribution costs through local production.* We intend to pursue a strategy of manufacturing dairy products in the same region in which they are consumed, decreasing our distribution costs and, consequentially, the price of our products, while at the same time increasing our profit margins for such products.
- *Using the seasonality of milk production to our advantage.* We intend to extend our dairy production capacity to include dairy products such as dried and condensed milk, which can be produced during periods of high raw milk production and then used in our production process during periods of high raw milk prices. For example, in furtherance of this objective, we acquired a controlling stake in a dried milk plant in Buryun, Ukraine in November 2002.
- *Creating incentives for our employees.* As we have grown, we have increased our efforts to reward employees for their contribution to the success of our business and to provide incentives for loyalty and continued productivity. For example, we introduced a performance-based bonus plan in 2002, and we intend to continue to develop incentive programs for employees, including a long-term share option plan to be launched in 2003.

Expand into the production of new dairy and beverage products. We intend to expand into the production of new dairy and beverage products by:

- *Expanding the production of cheese.* Domestic cheese production in the Russian Federation is mostly dominated by small producers who produce low-priced, low-quality traditional cheese products aimed at the mass-market segment. Premium processed and hard cheeses are primarily imported from the Baltics and elsewhere in Europe. In 2002, we began producing traditional cheese products under the "Orlov's Creameries" brand aimed at the middle-market segment. We intend to begin production of branded premium hard and processed cheeses during the second half of 2003. We believe that we will spend approximately \$30 million on cheese production facilities and equipment through 2005.
- *Expanding into the production of mineral water.* While maintaining our focus on our core businesses, we also began the production of natural mineral water at our newly-built factory in the town of Okulovka in the Novgorod region in March of 2003. The still and sparkling natural drinking water bottled at our Okulovka plant became commercially available in May 2003. We believe that, despite relatively strong competition, the mineral water segment has significant potential if the appropriate marketing approach is used, and that our marketing expertise makes this an attractive opportunity for us. In addition, as mineral water consumption is higher during the summer months, this segment will also enhance the ability of our existing juice products line to counterbalance the seasonal nature of the dairy products business. We believe that we will spend an estimated total of approximately \$19 million on water production facilities and equipment through 2005.

Current Operations

Dairy industry

Consumption. Russian dairy consumption is relatively low compared to most European countries and is characterized by two primary trends—the comparatively stable development of the market for traditional dairy products, and a more rapidly developing market for yogurt and dessert dairy products. The following table illustrates the per capita consumption of liquid dairy products in liters per year in selected European countries in 2001, based on the most current data available from Tetra Pak:

Country	2001
Finland	156.4
Ireland	139.4
Sweden	119.6
Denmark	119.1
Spain	118.7
Great Britain	100.9
Netherlands	99.9
Portugal	98.4
Belarus	76.9
Germany	70.9
Austria	70.4
France	70.1
Russia	69.4
Estonia	61.9
Italy	60.9
Poland	42.4
Ukraine	10.8

Source: Tetra Pak

Based on data from Tetra Pak, a Swedish food product packaging manufacturer from which we purchase a substantial portion of our packaging materials, per capita consumption of liquid dairy products in Russia was 67.0 and 69.4 liters per year in 2000 and 2001, respectively, which we estimate rose to 70.6 liters in 2002, levels that are relatively low compared to the majority of European countries. The demand for dairy products remained relatively stable in the aftermath of the 1998 Russian financial crisis and the ensuing decline in per capita income, as dairy products are generally considered to be staple consumer goods. Additionally, increasing per capita income following the immediate aftermath of the 1998 financial crisis has positively affected dairy consumption, particularly of higher-priced products such as yogurt and dessert dairy products.

According to our estimates, consumption of packaged dairy products in Russia increased by 7.6% between 2001 and 2002. We believe that packaged dairy product consumption levels will continue to increase in Russia as the consumption of bulk liquid milk decreases due to increasing per capita incomes, the growing desire and demand for sterilized milk and the greater convenience of packaged products. Consumption of bulk liquid milk, which generally consists of unpackaged milk sold in markets to consumers who bring their own packaging, is still relatively common in Russia.

Additionally, a number of packaged dairy products are relative newcomers to the Russian market. For instance, yogurt is a relatively new product for Russian consumers. Since its first widespread commercial appearance in Russia in the early 1990s, yogurt's popularity has increased. Per capita consumption, however, remains low. According to GFK, annual per capita consumption of yogurt (including drinking yogurt) in Russia's 25 largest cities in 2002 was about 2.6 kilograms, whereas the general range for most European countries, according to our estimates, was 15-20 kilograms. Other new

dairy products in Russia include dairy desserts, mousse, fruit-flavored traditional products, flavored milk and combined juice-dairy products. Several flavored yogurt drinks were introduced into the Russian market during 2002.

By our estimates, based on preliminary Goskomstat data for 2002, cheese consumption in Russia increased by 45% between 2000 and 2002, from 2 kilograms per capita to 2.9 kilograms per capita, respectively. We believe that cheese consumption levels will continue to grow due to increasing per capita incomes and the greater variety of cheese products available to Russian consumers.

Production. Milk production and processing in Russia declined dramatically during the 1990s due to the general state of the Russian economy, a lack of raw materials due, in part, to the slaughter of dairy cows necessitated by a shortage of feed, and a sharp increase in energy prices. Additionally, the majority of Russian milk producers, comprising individual farmers and collective agricultural enterprises, operate with inefficient and outdated facilities and equipment and function under outdated management practices.

The result of this decline was a drop in processing volumes and an increased reliance upon imported dairy products. While the financial crisis of 1998 aided Russian producers to some extent, as it pushed imported foods out of the Russian market, it also caused difficulties for Russian companies that depended on imported materials for production. In general, producers that were able to limit their exposure to fluctuations in the value of the ruble and to establish links with Russian suppliers survived the crisis and took leading positions in the marketplace. The milk processing sector, however, still remains fragmented, and currently includes over 3,200 large, medium and small enterprises. There is evidence, though, that the process of consolidation is continuing, with the less efficient producers going out of business or being acquired by larger companies. For example, in addition to our dairy plant acquisitions during 2002, our new competitor Planet Group, a subsidiary of Russian oil company Sibneft, also acquired several dairy plants in Russia and Ukraine.

Additionally, foreign, particularly European, producers have recognized the potential for growth in the demand in Russia for milk, yogurt and dairy desserts and are investing in the Russian market. A number of European producers, such as Danone, Parmalat, Campina and Ehrmann, produce dairy products in Russia, and comprise our principal competition in the yogurt and dairy desert segment of the dairy product market. According to media reports, both Danone and Ehrmann intend to continue to invest in Russia-based facilities in order to increase their output capacities during 2003.

Juice industry

Consumption. Before the early 1990s, consumption of juice products in Russia was limited. Juice products produced in the Soviet Union included only vegetable juices and fruit juices made of locally grown fruits such as apples and pears. Most Russian households tried orange, pineapple, grapefruit and other exotic fruit juices for the first time in 1991 and 1992, following the dissolution of the Soviet Union. Russian juice consumption grew each year until 1998, when consumption fell following the 1998 financial crisis, which led to a reduction in Russian incomes and a significant increase in the cost of juice products due to the increase in the ruble cost of imported juice packaging and ingredients. While Russian juice consumption has begun to recover from the effects of the 1998 financial crisis, it is still relatively low compared to most European countries. The following table shows annual per capita juice product consumption in liters in Russia and selected European countries in 2001, according to the most current data available from Tetra Pak:

Country	2001
Russia	9
United Kingdom	28
Poland	28
Germany	56
Hungary	29
Czech Republic	20
Latvia	14
Bulgaria	8

Source: Tetra Pak

The annual per capita juice product consumption in Russia in 2002 was estimated by the Russian Union of Juice Producers to be approximately 10 liters.

Production. Following the dissolution of the Soviet Union and the economic reforms that liberalized import procedures, foreign producers were able to capture a significant share of the Russian juice market by importing their products. However, the 1998 financial crisis caused a majority of the foreign companies to leave the market, and also forced a majority of Russian producers to decrease or discontinue juice production.

Since then, the juice products market has begun to recover. Since 1999, the market for juice products has witnessed significant increases in sales volume, stimulated by rising Russian incomes and an increased interest in health issues, as well as by the advertising efforts of juice producing companies.

Additionally, a number of Russian producers that survived the 1998 financial crisis have managed to restructure their production facilities using Western technologies and to strengthen their market positions. In 2002, according to the Russian Union of Juice Producers, Russian producers had a market share of 95.6%. Russian producers often use cheaper domestic inputs and modern packaging technologies, and they increasingly promote their brands on a national scale. The industry is now experiencing consolidation, as demonstrated by the increase in acquisition activity and the decrease in the number of brands on the market. According to a Business Analytica survey conducted in Russia's eleven largest cities, from September through December 2002, there were approximately 131 brands of juice products in the Russian juice market, though only ten of these brands accounted for 84.5% of the market. Western companies, whose products dominated the Russian juice market a few years ago, now have been forced to increase promotion of their brands and to develop local manufacturing to compete with Russian producers.

Our products and brands

Our dairy and juice products accounted for 68.3% and 31.7% of our net sales in 2002, respectively. Our principal geographic market is Russia, with the Moscow market being among the most significant. The following table sets forth our annual consolidated net sales, the proportion of consolidated net sales accounted for by our main business lines, our reported annual production volume and the growth rate by production volume of our main business lines:

	2002	2001	2000
Dairy products			
Sales (in millions)	\$ 563.0	\$ 485.4	\$ 325.5
Percent of total sales	68.3%	72.0%	70.0%
Sales volume (in thousand metric tons)	946.0	847.2	630.2
Annual volume growth (% year on year)	11.7%	34.4%	18.1%
Juice products			
Sales (in millions)	\$ 261.7	\$ 189.2	\$ 139.9
Percent of total sales	31.7%	28.0%	30.0%
Sales volume (in million liters)	476.7	327.1	250.3
Annual volume growth (% year on year)	45.6%	30.7%	31.2%
Total net sales (in millions)	824.7	674.6	465.4

Dairy products and brands

Our principal dairy product lines, types of products, brands, and their approximate percentage of our total production by volume in 2001 and 2002 are as follows:

Product line	Types of products	Brands	Approximate percentage of total production by volume in 2002	Approximate percentage of total production by volume in 2001
Traditional products	Sterilized and pasteurized milk, butter, cream, traditional sour-milk products such as kefir, cottage cheese, soft cottage cheese and sour cream	"Little House in the Village," "Darling Mila," "Kuban Cow," "Happy Milkman," "M," "Slavyanochka" and "Nizhny Novgorod"	63.2%	68.4%
Yogurts and dairy desserts	Traditional and drinking yogurt and dairy desserts, including mousse, fruit-flavored milk and kefir, puddings and flavored cottage cheese	"Wonder," "Dessertino," "Frugurt," "Lada" and "Ginger Up"	19.7%	19.7%
Enriched products	Milk, sour-milk and juice-milk and yogurt products enriched with vitamins, microelements, bacterium and other components	"Bio-Max," "Mazhitel" and "Doctor Bifi"	11.7%	6.6%
Dairy products for infants	Milk, sour milk and other dairy products intended for use by infants and children	"Agusha"	4.6%	4.7%
Cheese	Traditional cheese products	"Orlov's Creameries" and unbranded cheese	0.8%	0.6%

The Russian market for packaged dairy products has several defined market segments. The market can also be divided into non-branded and branded products, although non-branded products generally only cover the mass market segments. Our branding policy is designed to ensure that we reach customers in most of the segments with the right mix of brands, brand images and packaging formats. We support strong national brands, as well as local brands which are well established in the regions. The following chart illustrates our estimates of the current market segment positioning for our major brands, as well as a general description of the purchasers which each market segment covers:

	General purchaser characteristics	Traditional products	Yogurts and dairy desserts	Health-oriented enriched products	Dairy products for infants
Premium	<ul style="list-style-type: none"> Aged 25-45 Annual income of \$3,000 or more 		"Mazhitel"	"Biovit"	
Upper-middle and middle	<ul style="list-style-type: none"> Aged 25-45 Annual income of \$1,250 or more 	"Little House in the Village"	"Ginger Up" "Wonder"	"Bio-Max"	"Agusha"
Middle and lower-middle	<ul style="list-style-type: none"> Aged 18-65 Annual income of \$800 or more 	"Happy Milkman," "Slavyanochka," "Darling Mila," "Kuban Cow," "M"	"Frugurt"	"Doctor Bifi"	
Mass	<ul style="list-style-type: none"> Aged 35-55 Annual income of \$400 or more 	"Nizhny Novgorod"	"Lada"		

Note: Our estimates of annual income have been converted to dollars for your convenience. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Exchange Rates and Inflation."

In general, we seek to maintain at least one brand within most dairy market segments, and we intend to develop new brands to expand our coverage of attractive segments, including the premium segment. For example, in 2002 we developed the "Ginger Up" brand, which is targeted at children and includes dairy products as well as juices.

Market trends and competition. Overall, the Russian dairy market has been growing modestly over the last three years. According to Tetra Pak, the total market for liquid dairy products in Russia was 9.8 billion liters in 2000 and 10.0 billion liters in 2001. We estimate that the market increased to 10.3 billion liters in 2002. We believe that consumption may increase, as rising household incomes in Russia may tend to bring about higher protein consumption and preferences for value-added products. In particular, Russian households have proven receptive to yogurt, enriched dairy products and dessert dairy products. Given the existing low per capita consumption, we see this market segment as providing an opportunity for growth. We also expect continued growth in the consumption of products with long shelf lives, including sterilized milk.

We aim to produce quality products to satisfy the demands of consumers, using quality ingredients, modern technology and the results of scientific research. Due to our marketing strategy, large distribution network and effective product promotion, we have managed to gain leading positions across most dairy product sectors in the Russian market. According to an AC Nielsen study conducted in nine major cities located throughout Russia, in 2002, we were the leader in almost all packaged dairy markets with a market share, in terms of sales volume, of 33.4% in traditional dairy products, 43.5% in enriched dairy products and 45.4% in yogurt and dessert dairy products. We also process a significant portion of the raw milk processed in Russia. According to statistics of the Ministry of Agriculture of the Russian Federation, in 2002, total raw milk production in Russia was 33.5 million tons, of which 13.4 million tons was used in industrial processing and the rest was used for immediate consumption. The 1.1 million tons of raw milk that we processed in 2002 represented approximately 8.2% of the total industrial raw milk processed in Russia.

Though some measure of consolidation is occurring in the Russian dairy industry, the milk processing sector in Russia remains fragmented and currently includes over 3,200 enterprises. Due to the high degree of fragmentation, the market is very price competitive. In 1999, we responded to this competitive challenge by holding our prices constant in an inflationary environment. However, from 2000 to the present, we have expanded our distribution service, reduced our sales to wholesalers and increased our sales to retailers, and increased advertising. We believe that these strategies have increased public awareness of our products and helped us to continue to expand our market share without aggressive pricing.

In the traditional dairy products markets, we compete primarily with local producers, such as St. Petersburg-based Petmol and the Moscow-based Ostankino Dairy Plant and Ochakovo Dairy Plant, as well as with a number of smaller producers in other regions of Russia. In the enriched dairy products market, we compete primarily with Danone, the Ochakovo Dairy Plant and Petmol. In the yogurt and desserts market and, to some extent, in the children's products market, we compete with foreign producers such as Danone, Campina, Onken and Ehrmann who continue to invest in their businesses in Russia. We view the following producers as our primary competitors:

- *Danone*, a French company which is the most active foreign producer in Russia and aggressively promotes its products. It has a dairy plant in the Volga region where it produces yogurt, fruit yogurts and kefirs, as well as a dairy plant in the Moscow region. Its domestically produced and imported products are sold under the Danone brand name across Russia through its own distribution network. According to the nine-city AC Nielsen study, in 2002, Danone had a 11.7% market share by sales volume in yogurt and dessert dairy products and a 9.2% market share in enriched dairy products. Since our initial public offering, we estimate that Danone has acquired between 6.2% and 7.0% of our ADSs.

- *Petmol*, a St. Petersburg-based company that produces a wide range of dairy products, although it focuses on yogurts and desserts. Petmol was acquired by Planet Group, a subsidiary of Russian oil company Sibneft, in 2002. According to the nine-city AC Nielsen study, in 2002, Petmol had a 7.6% market share by sales volume in traditional dairy products, a 9.8% market share in enriched dairy products, and a 6.3% market share in yogurt and dessert dairy products.
- *Ostankino Dairy Plant*, a Moscow-based company and one of the largest dairy plants in Russia. It is our principal competitor in Moscow, with a particularly strong milk brand. According to the nine-city AC Nielsen study, in 2002, Ostankino Dairy Plant had a 2.3% market share by sales volume in traditional dairy products, a 2.0% market share in enriched dairy products, and a 2.8% market share in yogurt and dessert dairy products.
- *Ehrmann*, a German company producing yogurt products at its plant located in the Moscow region. Its brand names Ehrmigurt, Yogurtovich, Fruktovich and Uslada were specially developed for Russian consumers. According to the nine-city AC Nielsen study, Ehrmann had a 10.6% market share in yogurt and dessert dairy products in 2002.

We believe that we generally have several advantages over other Russian producers, including a larger production capacity and higher quality products, as well as greater innovation, new product development, geographical coverage, centralized management and marketing capabilities. However, many other domestic producers tend to benefit in comparison to us from lower cost bases, including lower advertising and distribution costs, and, for certain consumers, a preferred image.

Recent trends also indicate that industry consolidation may lead to the appearance of larger domestic producers, which could become significant competitors. For example, according to press reports, a subsidiary of Multon, our principal competitor in the Russian juice market, acquired a 20% stake in the Ochakovo Dairy Plant in December 2001, and the two controlling shareholders of Multon subsequently acquired a further 48% stake in the Ochakovo Dairy Plant. This acquisition of 68% of the Ochakovo Dairy Plant by Multon and Multon shareholders may increase the competitive position of the plant in the Russian dairy market by affording it the benefits of Multon's wider distribution network and marketing potential. In addition, we saw the emergence in 2002 of a new competitor in the dairy market. Planet Group undertook a string of acquisitions during 2002, including its acquisition of our major competitor Petmol in St. Petersburg and Galakton, Ukraine's largest dairy plant. These acquisitions, along with its potential access to resources from Russian oil company Sibneft, its parent company, will likely heighten its competitive position substantially in the Russian and CIS dairy products market.

Foreign dairy manufacturers generally have large promotional budgets and advanced production know-how, allowing them to offer quality and innovative products, and strong distribution networks. While foreign manufacturers generally tended in the past to focus on niche markets, usually in the premium segment, they are now increasingly concentrating on producing products for the average Russian consumer with an average income. Moreover, whereas our foreign competitors tended in the past to rely primarily on imported products, which are more expensive, a number of these companies, such as Danone, Parmalat, Campina and Ehrmann, have invested and continue to invest in domestic production facilities, reducing the competitive advantages that we have over foreign competitors without domestic production capability. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry— Increased domestic production by our foreign competitors could reduce our competitive advantages against them, which would adversely affect our market share and results of operation."

For example, Danone owns two plants in Russia and has introduced several of its yogurt brands into the Russian market, some of which were developed specifically for Russian consumers. The Dutch company Campina also owns a dairy plant in Russia that produces fresh yogurts and yogurts with a long shelf life. In addition, the German companies Ehrmann and Onken produce yogurt at Russian

plants, and Onken has reportedly invested over 20 million euro to install milk production equipment in its yogurt factory. Due to their increased domestic production of yogurt and dairy desserts, foreign producers have become our main competitors in these sectors, whereas we mainly compete with domestic producers in the traditional milk products sector.

We believe that we have several important competitive advantages that will allow us to maintain a leading position in the Russian dairy market: strong and diversified brands, stable access to raw milk, a broad proprietary distribution network, new product development focus, modern production assets and technology, access to external capital and a strong management team. We intend to take advantage of these strengths through our strategy of promoting brand awareness and loyalty with an emphasis on product quality, as well as by continuing our efforts of the last three years to focus on developing new products equal to or better in quality than those offered by Western producers.

Juice products and brands

Our juices are produced primarily at the Ramenskiy Dairy Plant, Lianozovo Dairy Plant and Tsaritsino Dairy Plant. We also produce juices at our plants in Nizhny Novgorod, Timashevsk, Vladivostok, Novosibirsk and Kiev. According to the Russian Union of Juice Producers, we had a 31.4% share of the Russian juice market during 2002.

Our principal juice product lines and types of products and brands are as follows:

<u>Product Line</u>	<u>Brands and Types of Products</u>
Juice and nectars produced from juice concentrate	<ul style="list-style-type: none">• "J-7," covering 22 kinds of fruit, berry and vegetable juices and nectars;• "Rio Grande," covering 8 kinds of fruit and berry juices and nectars;• "100% Gold," covering 12 kinds of fruit, vegetable and berry juices and nectars;• "Lovely Garden," covering 10 kinds of fruit, vegetable and berry juices and nectars; and• "Dr. Fresh," covering 7 kinds of fruit, vegetable and berry juices and juice-based drinks.
Traditional berry-juice-based drinks	<ul style="list-style-type: none">• "Wonder Berry," covering 6 kinds of berry-juice based drinks.
Other juice-based drinks	<ul style="list-style-type: none">• "DJ," covering 8 kinds of fruit and berry drinks; and Juice-content products for children• "Ginger Up," covering 20 kinds of fruit, vegetable and berry juice-based drinks.

Products in the juice products market tend to be branded and, as with the dairy products market, there are several defined segments. However, the market segmentation tends to fall along different lines than the dairy products market, primarily due to the tendency for dairy products to be considered food staples. We have positioned our portfolio of juice and nectar brands so that we have at least one of our brands in each of the five juice product market segments, with two or three brands in particularly competitive segments. The following chart illustrates our estimates of the current market

segment positioning for our major brands, as well as a general description of the purchasers which each market segment covers:

	<u>General Purchaser Characteristics</u>	<u>Juice and nectars produced from juice concentrate</u>	<u>Traditional berry-juice-based drinks</u>	<u>Other juice-based drinks</u>	<u>Juice-content products for infants and children</u>
Premium	<ul style="list-style-type: none"> Aged 25-45 Annual income of \$2,000 or more 	"Rio Grande"			
Upper-middle	<ul style="list-style-type: none"> Aged 20-50 Annual income of \$1,250 or more 	"J-7"	"Wonder Berry"	"DJ"	"Ginger Up"
Middle	<ul style="list-style-type: none"> Aged 25-45 Annual income of \$800 or more 	"100% Gold"			
Lower-middle	<ul style="list-style-type: none"> Aged 16-50 Annual income of \$600 or more 	"Lovely Garden"			
Mass market	<ul style="list-style-type: none"> Aged 16-55 Annual income of \$400 or more 	"Dr. Fresh"			

Note: Our estimates of annual income have been converted to dollars for your convenience. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Exchange Rates and Inflation."

Market trends and competition. The Russian juice market grew steadily from the time of the dissolution of the Soviet Union until the 1998 financial crisis, following which there was a significant decrease in consumption from which the market had substantially recovered by 2000. The total market for juice products, defined as the total consumption of domestically produced and imported products, increased to 1,480 million liters in 2002, according to the Russian Union of Juice Producers, from 760 million liters in 2000, according to Tetra Pak. We believe that rising household incomes in Russia and the increasing preference for juice over fresh fruits, which generally accompanies increased incomes, will encourage the consumption of vitamin-rich, value-added products with different tastes and nutritional characteristics. For example, according to a Business Analytica survey of 11 major Russian cities (the "Business Analytica Survey"), in Moscow and St. Petersburg, which enjoy higher average per capita incomes than most other parts of Russia, combined average consumption of juice in September through December 2002 was approximately 31 liters per capita, as opposed to national per capital consumption of approximately 10 liters per capita.

The markets for juice products in Moscow, the Moscow region and St. Petersburg are relatively mature compared to other regions of Russia and is expected to exhibit relatively modest growth rates in the future. We believe that our growth opportunities lie in the regions of Russia with lower fresh fruit availability or rising household income. We also believe that greater potential for growth lies in regions and CIS countries which are relatively undeveloped in terms of juice consumption, such as central and southern Russia, Siberia, the Far East and Ukraine.

Juice consumption in the Asian part of Russia and Central Asia has exhibited limited growth, primarily caused by low purchasing power and the absence of a juice consumption culture in those regions. Given these market characteristics, we are pursuing a marketing strategy aimed at promoting juice drinking habits by emphasizing the health benefits. We expect growth in demand in these markets to be slower than in other parts of Russia.

The operating environment has been challenging since the 1998 financial crisis. Competitive pressures have intensified because of the low purchasing power of households outside of Moscow and St. Petersburg and the rising number of domestic producers. We initially responded to this competitive challenge by holding our prices constant in an inflationary environment, as well as by introducing two new brands, one targeted at the middle-market price segment and the other at the mass-market price segment. During 2000 through 2002, we expanded our distribution service, reduced our sales to

wholesalers and increased our sales to retailers, added another mass market brand and increased advertising. As a result, in 2002, according to the Russian Union of Juice Producers, we had a 31.4% share of the Russian juice market. According to the Business Analytica Survey, from September through December 2002, we had a 43.4% share of the juice market in Moscow. We believe that these strategies have increased public awareness of our products and increased our sales to retailers, which has allowed us to continue to expand our market share at acceptable prices. At the same time, however, our profit margins on our juice products decreased in 2002 due to vigorous market competition from domestic and foreign producers and due to consumer preference for low-price, lower-quality juice products primarily in the regions outside of Moscow and St. Petersburg where per capita incomes are generally lower. See "Item 3. Key Information—D. Risk Factors—Risks Relating to our Business and Industry— Increased competition and consumer preference for low-price, lower-quality juice products primarily in the regions outside of Moscow and St. Petersburg have resulted in declining profit margins in our juice segment, which may adversely affect our results of operations."

Our principal competitors in the Russian juice market include the following companies:

- *Multon*, a St. Petersburg-based company that in 2002 had a 22.0% market share in Russia, according to the Russian Union of Juice Producers, and 20.6% in Moscow from September through December 2002, according to the Business Analytica Survey. Its "Kind," "Niko" and other brands entered the Moscow market in 1998 and since then have gained significant market shares primarily through aggressive pricing policies.
- *Lebedyansky* is based in the Voronezh region and, in 2002, had a 22.0% market share in Russia, according to the Russian Union of Juice Producers, and 25.6% in Moscow from September through December 2002, according to the Business Analytica Survey. Its "Tone," "I" and "Fruit Garden" brands have become well-known among Russian consumers. Lebedyansky recently acquired a majority stake in Progress, an apple juice concentrate producer.
- *Nidan-Ecofruct*, a Novosibirsk-based Russian company that had an 11.1% market share in Russia in 2002, according to the Russian Union of Juice Producers, and 6.8% in Moscow from September through December 2002, according to the Business Analytica Survey.

An important factor behind the success of domestic producers is the relatively low price of the products which they can offer at a quality level satisfactory to consumers. However, we believe that we have significant competitive advantages over these Russian producers, including greater production capacity, marketing capabilities, brand awareness, brand value and distribution networks, as well as higher quality products.

Several foreign companies invested in domestic production facilities during 2001, including Coca-Cola, which began large-scale production of its "Minute Maid" brand juices at a production facility in the Russian city of Orel. In addition, the Russian-Finnish joint venture United Juice Co. started production in St. Petersburg of its "Marli" brand juices, and the German company Glocken Gold began to produce its juices at a plant outside of Moscow. Domestic production by foreign producers in Russia reduces the competitive advantages that we have over foreign competitors without domestic production capability. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Increased domestic production by our foreign competitors could reduce our competitive advantages against them, which would adversely affect our market share and results of operation."

However, we believe that we can compete successfully against foreign producers. We offer our customers quality juice products with a range of different tastes and nutritional characteristics. We also have a wide network of production facilities and sell our products through a broad proprietary distribution network with good customer service standards. Further, we have a quality brand portfolio which ranks highly in almost all market segments, and we plan to continue to devote significant resources to advertising and marketing our leading brands.

Bottled water

We obtain natural mineral water from an underground source near the Valdai National Preserve, and in March 2003 we launched our bottled water factory in the town of Okulovka in the Novgorod region. This plant is capable of processing up to 360,000 liters of bottled water per day. The still and sparkling natural drinking water bottled at our Okulovka plant became commercially available during May 2003 and is marketed in Moscow and St. Petersburg under the "Sanctuary Valdai" brand name. As of December 31, 2002, we invested a total of \$6.5 million in the development of our bottled water production, and have allocated \$6.6 million for investment in our bottled water business in 2003.

Although there is no significant history of consumption of non-aerated bottled drinking water in Russia, the situation is changing due to environmental factors. Especially in large cities such as Moscow, there is a rising interest in bottled drinking water. The mineral water market is expanding not only in terms of production volumes, but also in terms of the number of brands. Moreover, the number of Russian premium brands is growing, while the share of imported brands is declining.

Our aim in entering the bottled water sector is to satisfy the growing demand among Russian consumers for quality mineral water using ecologically pure Russian sources. As our Okulovka bottling plant is strategically located near the Valdai Nature Preserve between Moscow and St. Petersburg, we will initially seek to enter the mineral water markets in these two cities. Thereafter we intend to open several factories near ecologically sound water sources and market our water locally with local brand names, all under the umbrella "Sanctuary" brand.

We believe that our primary competitors in this area will be Pepsi's "Aqua Minerale" and Coca-Cola's "BonAqua," as well as Borzhomi, Narzan and Saint Springs, all of which are produced in the CIS.

We plan to position our new brand in a more up-to-date style, accentuating the fact that it is a naturally produced mineral water, and will offer both still and carbonated waters in a variety of bottle sizes, giving consumers a wider choice.

New Product Development

We invest significant financial and human resources in new product development, focusing on long-term strategic development projects that are expected to create innovative products and technologies. Our product development department located at the Lianozovo Dairy Plant in Moscow had 21 employees as of December 31, 2002. It often cooperates with third parties such as Russian research institutions, specialized research firms and suppliers. In 1999 and 2000, we spent approximately \$1.4 million to establish a department focused on new product development. In 2001, we spent approximately \$1.3 million on activities associated with new product development, including \$0.5 million directly on new product development and \$0.8 million on the development of our own research center. During 2002, we spent approximately \$0.9 million on new product development.

Much of our new product development effort over the past three years has focused on higher-margin, value-added yogurt and dessert products to help ensure that we can offer products which match the quality and variety offered by our main foreign competitors in Russia. At present, we are focused on the development of enriched dairy products oriented towards Russian consumers, taking into consideration the general deficit of micro- and macro-nutrients in the diets of the average Russian consumer. We attempt to link new product development with marketing and sales in an effort to create innovative products and technologies.

Recent new product developments include a new line of nectars marketed under the "Ginger Up" brand, which is targeted at infants and children and includes traditional dairy products as well as juice drinks; a new range of enriched dairy products produced under the "Bio-Max" brand such as thick yogurts, yogurt beverages with fruit and bio-kefir with vitamins; and a new juice and dairy mix

produced under the "Mazhitel" brand. In 2003 we also introduced the locally themed "Vivat" brand of juices in St. Petersburg in connection with that city's 300th anniversary as well as a line of innovative products under the "Neo" brand.

Besides new product development, recent technological innovations include the development of our own stabilizers and bacteria cultures for the production of certain dairy products. These new products will allow us to replace some of the raw materials which we currently import.

Advertising and Marketing

Our advertising and promotional strategies are prepared internally by our marketing and advertising departments who work closely with advertising agencies and design studios. Our general policy and overall aim is to promote our brands nationally and strengthen our image as a leading Russian producer of high quality products. To implement this policy, we create brand-oriented, national advertising campaigns for consumers throughout Russia. This advertising primarily consists of television commercials, which allows us to reach the largest number of Russian consumers.

Additionally, given the diversity of the regions in which we operate and in order to enhance flexibility in responding to regional market trends, we supplement our national television advertising campaigns with regional advertising and marketing, consisting primarily of advertisements on local TV, promotions, point-of-sale displays, merchandising and billboards. To the extent that this regional advertising is based on national campaigns, our regional marketing managers are responsible for adapting it to regional consumption patterns and needs. Regional campaigns can also be created by regional brand managers, subject to central coordination and approval.

Our advertising and marketing expenditures of \$14.3 million in 2000, \$19.6 million in 2001 and \$34.9 million in 2002 constituted 3.1%, 2.9% and 4.2% of net sales, respectively. Though we are, in some instances, able to obtain volume discounts, we expect these expenditures, as a percent of net sales, to increase due to market competition and annual media inflation. According to Gallup, we were the seventh largest advertiser in Russia by advertising expenditures for 2000, the eighth largest advertiser in Russia in 2001, and the fourth largest advertiser in 2002.

A majority of our advertising expenditures are for the promotion of our leading nationwide brands, such as "J-7" and "Wonder." We plan to continue to allocate the bulk of our advertising budget to a limited group of strategic brands which are highly ranked in their respective markets, helping us to compete against the non-branded products of small Russian producers, as well as against branded products produced by Western and larger Russian manufacturers. We also plan to continue our aggressive advertising of selected new products.

We continually seek fresh outlets for promoting our brands. For example, since 2001 we have sponsored the television program "The Last Hero" (the Russian version of "Survivor"), the first reality-based series on Russian television. In this connection, our "J-7" brand products are featured in virtually all public relations and marketing relating to the show—on billboards, J-7 packaging, television and print advertisements, as well as on the show itself. We intend to continue our sponsorship of The Last Hero during the show's next season. Another example of innovative marketing is our active promotion of the "Ginger Up" brand, which is targeted at children, with aggressive media advertising, and a unique "Ginger Up" magazine for children.

We have also built brand awareness through charitable work and sponsored events. For several years, we have sponsored events of a program of the International Charity Foundation called "Hope Around the World." This program helps young orphans in 102 towns around the world. We also sponsor events of Ronald McDonald's Sports and Recreation Center for Children, which helps mentally and physically disabled children; cooperate with the Society for Helping Children with Heart Diseases; and assist in the organization of International Invalid's Day, organized under the auspices of UNESCO

in Russia. We also support various Moscow children's charities and concerts for children. In addition, we serve as a trustee of the Charity Foundation for special grants, which is headed by Mstislav Rostropovich, a prominent Russian musician.

Sales and Distribution

The broad distribution of our products is an important element in maintaining sales growth and providing services to our customers. We attempt to meet the changing and increasing demands of our customers by planning appropriate stock levels and reasonable delivery times consistent with achieving the optimal economics of distribution. In order to achieve these objectives, we have developed a proprietary network of distribution centers and sales offices that are strategically located in approximately 70 cities in Russia and other countries of the CIS, providing us with a broad national presence and facilitating the sale of our products to more than 15,000 customers. For the purposes of establishing pricing policies, coordinating interaction with local authorities, production and raw material purchase planning, we divide Russia into two sales and distribution areas: European Russia and Asian Russia.

Distribution. Due to different consumption patterns and product characteristics, our dairy and juice products businesses require different distribution strategies. We have therefore built two largely independent distribution systems for our dairy and juice products, although we use the same marketing approach in each business and take advantage of synergies between the systems to the extent possible. Our bottled water will be distributed using our existing dairy and juice distribution networks as well as a new water distribution network. The distribution strategy for water will largely follow the distribution strategy we developed for our juice products.

Given the limited shelf life of dairy products, their distribution tends to focus on local customers near the production facilities. Typically, key dairy sales personnel are located at the production plant and are responsible for regional sales activities, including facilitating orders and coordinating deliveries, customer account management, marketing analysis and reporting to headquarters. We also operate smaller representative offices in surrounding towns which have the same responsibilities for local customers.

Our infant dairy products, produced by the Moscow Baby Food Plant, are largely purchased by the Moscow City Government, which in turn distributes them through specialized milk kitchens located around Moscow and the Moscow region. In 2001 and 2002, approximately 74.1% and 60.8%, respectively, of our child and infant dairy products sales volumes were distributed through these milk kitchens, with the remaining sales volumes being sold through our distributors. The dairy products sales volume distributed through the milk kitchens decreased during 2002 while at the same time the volume of commercial sales of dairy products increased. Thus, whereas in January 2002, the dairy products sales volume distributed through these milk kitchens comprised 68.0% of the distribution volume and 60.2% of the proceeds of the Moscow Baby Food Plant, by December 2002, the dairy products sales volume distributed through these milk kitchens comprised 54.1% of the distribution volume and 42.8% of the proceeds of the Moscow Baby Food Plant. Our sales to the Moscow City Government, which result from a tender process and were at prices approximately 7% below market price in 2001 and approximately 20.1% below market price in 2002, constituted approximately 4.4% of our total dairy product sales in 2001 and approximately 2.3% in 2002. The increased discount in 2002 resulted from the increase in the market price for the products sold to the Moscow City Government relative to the tender price during 2002.

Juice products have longer shelf lives than dairy products, which allows us to distribute these products to customers across the country. We have established a broad proprietary distribution network, with distribution centers in all key Russian cities with populations of more than one million and representative offices and sales agents in smaller regions. Typically, a distribution center includes sales

and marketing personnel dedicated to serving each customer group separately, and accounting and logistics personnel. Further, in order to build strong relationships with major customers, we have adopted a concept of key account management which enables us to negotiate better trade terms with such customers.

Customer base and pricing. We distribute our products through a variety of channels, including independent distributors and wholesalers, supermarket chains, small- and medium-sized grocery stores, open-air markets and restaurants. As a percentage of total sales during 2002, approximately 66% of our dairy products volume and 80% of our juice products volume were delivered through independent distributors and 34% of our dairy products volume and 20% of our juice products volume were delivered by direct distribution.

Our general distribution strategy for dairy products is to increase the share of direct distribution to retailers such as supermarket chains, grocery shops and restaurants while maintaining our relationships with independent distributors. Increased direct distribution to retailers allows for greater flexibility with short-lived dairy products and should improve gross margins and increase our marketing potential, although direct distribution will also result in higher transportation and sales costs. To this end, we have expanded our proprietary distribution network.

Our distribution strategy for juice products is to sustain and enhance our relations with independent distributors with most of whom we have developed long-standing, beneficial relationships.

Independent distributors. As a percentage of our total sales during 2002 we sold approximately 66% of our dairy products volume and 80% of our juice products volume through large networks of independent distributors, structured as follows:

- As of December 31, 2002, our dairy distribution network consisted of approximately eight large independent distributors in Moscow and the Moscow region, as compared to 33 during 2001. In addition to strategically reducing our number of distributors, we also implemented a segmentation program among the eight Moscow distributors whereby each distributor controls the distribution to a particular segment or segments of the dairy products market and distributes in accordance with our unified pricing scheme. We believe that this strategy will increase the quality and efficiency of distribution while allowing distributors a larger financial stake and incentive to operate high-quality distribution channels. As of December 31, 2002, we had 120 independent dairy distributors throughout the rest of Russia.
- As of December 31, 2002, our juice product distribution network consisted of approximately 12 independent distributors in Moscow and 100 independent distributors throughout the rest of Russia.

A number of independent distributors with which we work purchase both dairy and juice products from us. We offer our independent distributors certain discounts off our base prices. A long-term tariff plan is developed with each independent distributor that provides the terms of the discount and deferred payment plans. The terms of these tariff plans may be adjusted from time to time based on the performance of a distributor.

Independent distributors purchase directly from us and then resell our products through their own distribution centers. Given the importance of these customers, we process orders from independent distributors relatively quickly. Since the Lianozovo Dairy Plant computer center launched its electronic order system in January 2000, some of the transactions at the Lianozovo Dairy Plant with independent distributors have been executed through the Internet. In 2001, we started to use an automated order system with all of our independent distributors who purchase our products in large volumes, and in 2002 we began using this automated order system with our smaller independent distributors as well.

Our general policy with regard to independent distributors is to limit their influence on our business by restricting each distributor's purchases to no more than 5% of the total sales volumes of either our dairy or juice products. We expect the number of independent distributors with which we work to grow in the future, while at the same time we will seek to increase our direct distribution with respect to our dairy products. Further, we seek to maintain control over the pricing of our products by distributors. Independent distributors that violate our pricing guidelines more than three times are no longer given a discount on our base prices. Monitoring compliance with these pricing guidelines is conducted by a special department.

Supermarket chains. As a percentage of total sales in 2002, we sold approximately 8% of our dairy products volume and 7% of our juice products volume to supermarket chains in Russia. Our approach to supermarket chains is to increase our share in this sector by becoming the supplier of choice to the major retailers by developing key supplier relationships and improving customer service standards. We have focused our business on major retailers whose market shares are continuing to grow, such as Ramstore, Perekryostok, Seventh Continent, Kopeika and others. We also sell our products to wholesaler Metro, whose customers are mainly small- and medium-sized businesses that purchase our products in bulk for resale or everyday business use. Similar to independent distributors, supermarket chains receive a discount based on the volumes they purchase during each month. We aim to maintain retail price control with supermarkets in the same manner as with independent distributors.

We also plan to launch in 2004 an online project currently under development with supermarket chains and other retailers. Participants will order products through the Internet using equipment and software provided by us that will enable them to access the Internet and upgrade their purchasing process. We have already implemented an Internet-based program for our Moscow dairy product distributors, and we plan to expand our Internet-based distribution program in the future.

While relationships with supermarket chains are currently beneficial for us, we expect that the growth of certain chains and consolidation of market power may increase the bargaining power of some of these customers. For example, some Russian supermarket chains have from time to time created informal alliances in an attempt to obtain greater price discounts from manufacturers. We do not intend to seek or sustain inefficient sales volumes and may withdraw from unprofitable business relationships. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Our substantial reliance on independent retailers and wholesalers for the distribution of our products could lower our turnover and reduce our competitiveness." Additionally, certain supermarket chains have begun to charge limited fees for shelf space for juice products, and we are generally charged limited fees for shelf space for dairy products in Ukraine. We expect that this trend will continue.

Small retailers. As a percentage of total sales in 2002, we sold approximately 21% of our dairy products volume and 8% of our juice products volume to small retailers. We have a dedicated sales force whose responsibility includes managing our relationships with small- and medium-sized grocery stores and open-air market retailers. These retailers are charged our base price for our products. While we do not have any formal programs to monitor the retail prices charged by these entities, we encourage them to follow our pricing guidelines.

Cash-and-carry stores. In Moscow, we also have our own cash-and-carry stores which sell primarily milk and dairy products and through which, as a percentage of sales, we sold approximately 5% of our dairy products volume in 2002. Sales at these stores are at our base price. We intend to maintain our sales through this type of store, though we do not intend to open additional stores.

Other sales. We are a supplier of McDonald's restaurants in Russia. Under our agreements with McDonald's, we supply sterilized milk for sale under the "McDonald's" brand in their restaurants. We

also sell our juice products directly to certain airlines, restaurants, schools, hotels and other establishments.

Transportation. We sell from our plant warehouses, distribution centers, cash-and-carry stores or through direct delivery. We deliver our products to customers directly using third-party truck and railway delivery services and our own truck fleet. We do not charge our customers a delivery fee for the shipment of products to our regional distribution centers, though a delivery fee may be assessed for the delivery to a customer from such distribution centers.

Export program. We export our juice products to the Netherlands, Israel, Germany, the United States, Canada, Australia, Great Britain, Armenia, Moldova, Estonia, Latvia and Lithuania. With the exception of the Netherlands, where we operate a subsidiary with a distribution network, our juice products are distributed in these countries through independent distributors. Our total juice export sales were approximately \$0.7 million in 2000, \$1.0 million in 2001 and \$2.5 million in 2002.

In addition to the export of juice products, we also export our dairy products to other European and CIS countries, where they are distributed through independent distributors. Our total dairy export sales were approximately \$0.5 million in 2000, \$2.9 million in 2001 and \$2.6 million in 2002. We plan to increase the export of milk products to CIS countries.

We began exporting our products to Western markets in 1999, in particular our traditional berry-juice drinks which we marketed under the "Wonder Berry" brand. We selected this product because of its distinctiveness and the opportunity it presented to take advantage of the expansion of the red-berry juice market in Europe.

In preparing to begin our export program, we commissioned Indumar Ogilvey to conduct a survey of potential demand for our products in the Netherlands. Qualitative and quantitative testing of the "Wonder Berry" drink among Dutch consumers produced rather promising results, and we began to sell this drink in the Netherlands in the autumn of 2000. Wonder Berry is currently sold in stores throughout Benelux.

In early 2000, we began selling our juice products in Israel, where our "Wonder Berry," "100% Gold" and "Rio Grande" juice products are currently available. In order to address consumer preferences in Israel, our "Wonder Berry" juice products have been certified kosher.

We also began to ship "Wonder Berry" to Australia during 2002, where it was sold in approximately 185 Woolworth outlets.

We intend to continue market tests and market research in, as well as one-off deliveries to, foreign countries in order to determine future potential markets.

In exporting our products to a country, we attempt to meet the applicable legislation governing the import of food products into the country. Independent distributors have, in some cases, attempted to export products to other countries that did not meet applicable legislation. For instance, an independent distributor attempted to export several of our juice products into the U.S. which did not conform to Federal Drug Administration requirements in October 2000.

Production and raw materials

Production efficiency and quality

As an internal quality standard, and in addition to compliance with the relevant Russian quality standards, we attempt to ensure that our products conform to the quality standards of organizations such as the World Health Organization, l'Association Francaise de Normalisation and the Food and Agricultural Organization, as well as the regulations of the European Union. We are also a member of the International Federation of Fruit Juice Producers and the Russian Union of Juice Manufacturers.

In addition, we were certified in 2001 and 2002 for meeting the British Retail Consortium (BRC) food technical standard, which required a third-party assessment of our premises, operational systems and procedures by a certified BRC auditor, and we intend to seek such certification again for 2003. We have also helped relevant Russian government agencies initiate and develop corresponding regulations for the Russian market.

In developing new types of products, we cooperate closely with the Institute of Nutrition of the Russian Academy of Medical Sciences, Moscow State University of Food Production and the GFL-Laboratory in Berlin, Germany. This cooperation has provided our employees with scientific advice, solutions to technical problems and on-site training.

We have our own research laboratory with a team of scientists and experts. Samples of all our primary ingredients and samples of our final products undergo microbiological analysis and in-depth testing. In addition, we have laboratories at all of our plants that perform random quality checks on our products at all stages, including quality checks on the raw milk supplied by dairies to us, the materials at our production facilities and the finished products in our warehouses. Some of our products have been singled out for their quality. For example, the Institute of Nutrition of the Russian Academy of Sciences has recommended the products of the Tsaritsino Dairy Plant for children from the age of eight months, as well as for pre-school children.

We have been upgrading our facilities with advanced technological engineering. Our significant investments in manufacturing have helped enable our products to compete with those of leading domestic and international manufacturers. For example, at the Lianozovo Dairy Plant, we have installed new production lines of Tetra Brik Aseptic, of Tetra Pak, Sweden, for bottling juices, nectars and milk into cartons with a plastic cap and an application foil tape. Additionally, the reconstruction of the Moscow Baby Food Plant and installation of new production lines there has allowed us to improve the quality of the products produced at this plant. All the lines at the Moscow Baby Food Plant are now equipped with aseptic technology. The method of ultrafiltration we use at this plant also allows us to produce a children's cheese paste which retains its most beneficial nutrient, serum protein, giving it a higher nutritional value than similar products manufactured at other dairy plants.

We have uniform quality standards for all our enterprises. When we enter regional markets, we seek to raise the standards of consumption to a higher level, offering a wide range of quality products at reasonable prices.

We also seek to make efficient use of our milk supply and handle surplus raw milk resulting from seasonal differences in supply by processing this milk into longer-life products such as milk powder and butter. Our ability to handle these imbalances in supply is important for cost-effective purchasing of raw milk throughout the year.

Food raw materials

The main raw materials we use to produce our dairy and juice products include the following:

- raw milk, which we generally obtain from domestic farmers;
- dry milk, which we generally obtain from small domestic producers or import;
- bacteria cultures, which we generally import, although we have begun to develop our own cultures;
- flavorings and sweeteners, which we generally import;
- juice concentrate and juice puree, which we primarily import, but also purchase domestically; and
- other ingredients such as frozen fruits and stabilizers.

The prices of each of the foregoing raw materials are generally volatile.

Our purchasing policy is to increase the share of locally produced food raw materials that satisfy our quality standards. We have focused on developing partnerships with established leaders in the field of local food production, including the leading Russian raw milk, dry milk, fruit and sugar producers. In each region where we require raw milk, we establish direct supply contracts with local individual farmers and collective farms. We have also begun entering into more purchasing arrangements with Russian suppliers of raw materials in the juice sector. In 2002 we also acquired Depsona, a fruit juice and concentrate producer in Central Russia, which will allow us to reduce our dependence on imported juice concentrates. We purchase substantially all of our raw materials directly and do not engage in a significant amount of barter transactions.

We also purchase certain raw materials such as bacteria cultures, juice concentrate and flavorings from foreign manufacturers due to the unavailability of products of appropriate quality locally. We use quality raw materials, supplied by producers from approximately 25 countries such as Cargill (U.S.), Quatral (Brazil), Jahncke (Germany), Givaudan (Germany), Hahn (Germany), Wild (Germany), and Firmenich (Switzerland). Our flagship "J-7" juice line, the best-selling juice brand in Russia, was created with consulting assistance from Cargill, the world's largest supplier of juice concentrates.

"Milk Rivers" program. We have strengthened our position in the dairy market by developing our own network of raw material suppliers, in significant part through investments that support agricultural producers. As of December 31, 2002, our investment in these programs has totaled approximately \$14.3 million.

In the summer of 1999, we merged and formalized these programs under our "Milk Rivers" program (referred to as "Dairy Rivers" in the notes to our financial statements included elsewhere in this document), through which we provide local dairies with trade loans, feed, and leased combines and milking and refrigeration equipment. In selecting dairies to participate in this program, we choose only those that seek to increase the quality of their products and raise the productivity of their herds.

Under the Milk Rivers program, we have rented advanced German and Swedish feed production, milking and refrigeration equipment for periods from three to eight years to approximately 90 agricultural enterprises located in the Moscow region. The lease receivables are offset with milk supplies based on a predetermined schedule during the lease term. The lease receivables are denominated in U.S. dollars and Russian rubles. The lessees have the option to settle receivables through the delivery of milk supplies based on a predetermined schedule. The settlement is based on milk prices that are either fixed in U.S. dollars in the range of \$0.17 to \$0.21 per kilogram, depending upon the quality, which approximates the average cash prices at the inception of the lease, or is variable dependent upon prevailing market prices. Equipment leased out to farms includes milking and

refrigeration equipment for accelerated milk freezing and the temporary storage of milk at farms, and mangers and other technical devices that increase the productivity of farms. The type of equipment provided depends on the needs of each particular farm. We have also set up a service center to assist the participants in keeping the leased equipment in good repair.

Under the Milk Rivers program, we also extend credits to dairy farmers for the purchase of cattle.

We plan to eventually expand the scope of this program to include all regions of Russia and other CIS countries where we produce our dairy products. For example, we have commenced the Milk Rivers program and invested \$2.0 million in the Krasnodarskiy region in Russia, where we have two production plants.

Other initiatives. A key factor for enhancing milk productivity of a herd and increasing milk quality is the availability of a good feed base. This particular problem has been one of the most important in recent years and arose because of harvesting problems deriving from a lack of modern harvesting machinery. For this reason, the second stage of the Milk Rivers program has entailed providing a number of the participating agricultural enterprises with new feed-harvesting machines. Doppstadt, a German company, has become our partner in this project.

We believe that providing dairies with wholesome, well-balanced compound animal feed is essential for increasing the productivity of dairy herds, especially in the winter. We have participated in a program since 1999 with feed producers Gerkules (Klin) and AO Lukhovitsky Milling Plant and, in 2001, we purchased grain and supplied approximately 36,200 tons of wholesome compound feed to dairies in the Moscow region and adjacent regions. In 2002, we purchased grain and supplied approximately 29,800 tons of wholesome compound feed to dairies. As with the Milk Rivers program, payment for the feed is made with milk supplies. The offset milk price is in a range which approximates average cash prices for milk.

Seasonality

The demand for our dairy products is significantly higher during the winter months, when Russian raw milk production is at its lowest. Conversely, during the summer months we generally experience depressed demand for dairy products, while raw milk production is at its peak. To address these seasonal demands, we have commenced and expanded the production of dry milk at some of our dairy production facilities for use in production during the winter months, and have also acquired plants that specialize in the production of dry milk.

The demand for our juice products traditionally peaks during April through May and in December. We believe that the high demand during April through May is related to the public's heightened desire for vitamin-rich food and drink products during the transition from winter to spring, and that the high demand in December is related to increased juice consumption during the holidays.

The demand for both dairy and juice products in southern Russia rises in the summer due to an increase in the number of tourists. To meet this seasonal increase in demand in southern Russia, we have expanded to double the capacity at our plants located in Timashevsk and Kiev, and in 2002 we acquired dairy plants in the Krasnodar region and in Kharkov, Ukraine.

Packaging

Our principal packaging raw materials include materials needed for packaging our dairy and juice products, consisting mainly of composed material, polymeric material and foil. Our principal supplier of composed material for the production of milk and juice carton containers is Tetra Pak, the world leader in manufacturing equipment and materials for aseptic packaging of liquid food products. Tetra Pak supplies approximately 90% of our packaging materials, and we are substantially dependent upon this sole supplier to meet our requirements. As a major Russian consumer of Tetra Pak products, we have

annual contracts with Tetra Pak, which supplies us from its Russian plants as well as from European plants.

We have established similar relationships with companies such as SIG Combibloc, GEA Finnah, Senoplast, APV, Solvay and Huhtamaki Van Leer. As part of our strategy to increase locally produced raw materials, we are developing relationships with Russian manufacturers of packaging materials, in particular with companies such as Lintekhnosurs and Soyuz. We also intend to begin using more plastic packaging for our products.

Trademarks and Patents

We have registered brand names and trademarks throughout Russia and in other countries. As of December 31, 2002, we had successfully registered 122 trademarks in Russia and 40 trademarks abroad. The trademark application for one of our products, "Wonder Berry," was rejected in Finland and Bulgaria, and we are currently contesting the rejection in Bulgaria. We successfully contested the rejection of our "Wonder Berry" trademark application in Armenia. As of January 30, 2002, we had 195 pending trademark applications in Russia and 78 pending trademark applications abroad. The brand names listed above under "—Our products and brands—Dairy products and brands" and "—Our products and brands—Juice products and brands," which we have registered in Russia, are material to us. We also own several licenses, patents and proprietary recipes, know-how and technologies related to our products and processes. See "Item 3. Key Information—D. Risk Factors—Risks Relating to our Business and Industry—We may not be able to protect our intellectual property rights adequately, resulting in material harm to our financial results and ability to develop our business" for a description of the risks related to the protection of our trademarks.

Insurance

In June 2003, we acquired insurance coverage for our eleven major production facilities, including the Lianozovo Dairy Plant, Tsaritsino Dairy Plant, Moscow Baby Food Plant, Ramenski Dairy Plant, Timashevsk Dairy Plant, Ufa Dairy Plant, Kiev Dairy Plant, Kharkov Dairy Plant, Bishkek Dairy Plant, Siberian Dairy Plant and Vladivostok Dairy Plant. The insurance is provided by a leading Russian insurer, AlfaInsurance, and reinsured by AIG Russia and Munich Re. The coverage is a standard "All Risks" insurance package covering the most valuable equipment at these facilities.

Regulation

Production, sale and distribution of foods and beverages in the Russian Federation is regulated by general civil legislation and by special legislation that includes quality standards and various safety and sanitary rules.

Government Entities Involved

Aside from federal executive bodies and their structural subdivisions that have authority over general issues, such as defense, internal affairs, security, border service, justice, tax enforcement and rail transport, there are a large number of government agencies directly involved in regulating and supervising the quality and safety of food in the Russian Federation.

The State Sanitary Epidemiological Service, a division of the Ministry of Health Protection of the Russian Federation. The Ministry of Health Protection of the Russian Federation is the principal federal body authorized to supervise sanitary and epidemiological issues in the Russian Federation. The State Sanitary Epidemiological Service of the Russian Federation (or Gossanepidservice) is a division within the Ministry charged with carrying out these supervisory responsibilities. The organs of Gossanepidservice develop, review, revise, examine, approve, give effect to, publish, control and supervise sanitary-epidemiological rules (which include sanitary rules, sanitary standards, and hygienic

requirements). Gossanepidservice also monitors the sanitary conditions of production sites and equipment, fulfillment of sanitary standards for raw material and finished product storage at manufacturing plants, and compliance with sanitary standards for the storage and sale of food products at wholesale and retail outlets, and businesses catering to the public.

The State Committee on Standardization and Metrology. The State Committee on Standardization and Metrology sets and oversees compliance with obligatory general and industrial standards.

The State Veterinary Service, a division of the Veterinary Department of the Ministry of Agriculture of the Russian Federation. The State Veterinary Service supervises the sanitary safety of raw food materials used in the production of food products and beverages where such raw food materials are of derived from animals.

The State Inspectorate for Trade, Quality of Goods, and Protection of Consumers' Rights under the Ministry of Economic Development and Trade of the Russian Federation. The State Inspectorate for Trade, Quality of Goods, and Protection of Consumers' Rights monitors the quality and safety of food products at wholesale and retail outlets and carries out inspections of sellers' premises.

Applicable Food and Health Legislation

Russian legislation regulating quality and safety of foods and beverages includes the following acts:

- The Federal Law on Quality and Safety of Food Products establishes a general framework for ensuring that food products and materials used in their production conform to certain quality, safety and sanitary requirements and provides for the state registration and certification of food products once they so conform. It also establishes general requirements for the manufacturing, packaging, storage, transportation, and sale of food products and beverages, and for the destruction of poor-quality and unsafe products.
- The Federal Law on the Sanitary-Epidemiological Well-Being of People requires food products and beverages, and the raw materials used in their production, to meet certain sanitary standards and health requirements and to have no harmful effects. Products that do not conform to sanitary rules and health requirements and represent a danger to consumers must be withdrawn immediately from production or sale. As a result, the fulfillment of sanitary standards and health requirements is an obligatory condition for the production, import and sale of food and beverage products in the Russian Federation.
- The Federal Law on Technical Regulation, which will become effective on July 1, 2003, provides for the development, enactment, application and enforcement of obligatory technical requirements and the development of voluntarily standards relating to manufacturing processes, operations, storage, transportation, selling and utilization. Compliance with the obligatory technical regulations is supervised by the authorized state organs.
- The Governmental Regulation on Monitoring of Quality and Safety of Food Products and Health of People identifies the government agencies that are responsible for supervising and monitoring the quality and safety of food products.
- The Government Regulation on State Registration of New Food Products, Materials and Goods provides for the obligatory state registration of certain food products, including mineral water, baby food and dairy products enriched with vitamins and/or other microelements. Food producers intending to develop and offer a new food product to the public are required to file an application for the product's state registration and incorporation into the State Register of Permitted Food Products. Such applications are reviewed by the Ministry of Health and certain divisions of the State Sanitary Epidemiological Service of the Russian Federation authorized by

the Ministry of Health (or together with the Ministry of Agriculture with respect to products derived from animals) within 40 days of their filing.

- The Regulation for the Conduct of Sanitary-Epidemiological Examinations of Products adopted by the Ministry of Health establishes procedures for the sanitary-epidemiological examination of products. Government bodies that monitor sanitary and health issues conduct sanitary-epidemiological examinations of samples of each product and issue a conclusion as to whether such product satisfies the prescribed requirements. Products that have not undergone a hygienic evaluation may not be produced, shipped, used, sold or certified.
- A number of other regulations also apply to food products. For example, requirements for the storage, production, labeling, transportation and sale of food and beverages are established by state standards, sanitary rules, hygienic requirements and other regulations.

Registration Requirements

Certain food and beverage products (such as children's products, dietary foods, milk products enriched by vitamins and/or other microelements, additives to food, and food products manufactured using technologies that have never been applied in the Russian Federation) must be registered with the Russian government if they are either manufactured in Russia or imported into Russia for the first time. The regulation makes it illegal to manufacture, import or circulate products that are subject to state registration but have not been registered.

The product registration process includes:

- An examination of documents provided by the manufacturer or supplier of the product describing the product, its safety and evidencing its conformity with applicable rules;
- Toxicological, hygienic, veterinary and other types of tests of products and, with respect to products manufactured in Russia, an examination of the manufacturing conditions of such products;
- Registration of the product, its manufacturer and supplier with the State Register of Food Products maintained by the Ministry of Health; and
- Issuance of a certificate of state registration permitting the product to be manufactured, imported or distributed in the Russian Federation.

The state registration of products is carried out by the Ministry of Health and certain divisions of the State Sanitary Epidemiological Service of the Russian Federation authorized by the Ministry of Health (or together with the Ministry of Agriculture with respect to products derived from animals).

Certification

The certification of products and services is currently regulated by the Law on the Certification of Products and Services, which sets forth certification requirements in the Russian Federation. This law will be superceded by the Federal Law on Technical Regulation when it becomes effective in July 2003. Product certification is a procedure whereby an agency authorized by the government confirms that a product complies with technical regulations, standards and requirements. Milk products, juice and beverages are subject to mandatory certification. Conformity symbols evidencing that the manufacturer has undergone certification procedures are required to be printed on a product's packaging. Failure to mark a product with a required conformity symbol carries possible administrative sanctions.

Bulk Purchase of Raw Milk

A supplier of raw milk must provide a certificate stating that the farm from which it originated has passed a health inspection. Milk bought in bulk must also conform to requirements with respect to temperature, color, sedimentation, content of neutralizers, heavy metals, density, protein content, fat content, alcohol content and other characteristics.

Production and Transportation

Laboratory employees and technical specialists must verify that the condition of equipment, implements, raw materials and packaging conform to sanitary requirements. For example, in the course of manufacturing, microbiological tests must be conducted of samples of raw materials, packaging and products. Products are tested for their content of chemical pollutants, toxins, medicinal and hormonal preparations, radionuclides and pathogenic microorganisms. They are also tested to identify bacteria, yeast and mold content, and to determine their sterility and the effectiveness of the pasteurization process. Products are also examined to determine the amounts of certain nutrients they contain, including protein, fat, vitamins, and carbohydrates. In addition, the cleanliness of the factory, storage conditions and employees must be monitored.

Food products and beverages must be transported in specially equipped vehicles, for which sanitary registration documents must have been issued.

Packaging Material and Labeling Requirements

Manufacturers and suppliers of all types of packaging materials used in the production of dairy and juice products must provide certificates of conformity and sanitary-epidemiological certificates for packaging materials showing that the packaging materials are permitted and safe for contact with the food products.

The Law on the Protection of Consumers' Rights determines the scope and format of the information that should be made available to consumers. According to this law and other state standards, the packaging of finished products must contain the following information: the name of the product, information regarding its certification, conditions of use (if necessary), contraindications (if any), preservatives and food additives, net mass or volume, ingredients, nutritive value, conditions of storage, shelf life, name and address of the manufacturer and other information. The law also authorizes a wide range of government and public agencies to monitor producers' compliance with the requirements of the law and imposes sanctions and penalties if such requirements are not met.

Special Requirements for Children's Dairy Products

The Law on the Quality and Safety of Food Products defines children's food products as food products specially designed for children under 14 that meet certain nutritional requirements. Such products are subject to more stringent sanitary-epidemiological standards. For example, certain ingredients and components are prohibited for use in children's food products, and the procedures for monitoring raw materials and ingredients used in manufacturing, technological processes, and sanitary conditions of production are stricter for children's dairy products than for other dairy products. Laboratory analyses and tests must be conducted for a broader list of microbiological indicators. Packaging materials for children's dairy products must be certified for use with children's products. Children's dairy products are also subject to special labeling requirements. For example, packaging of children's dairy products must bear information on the purpose and conditions of use of such products.

Competition and Pricing

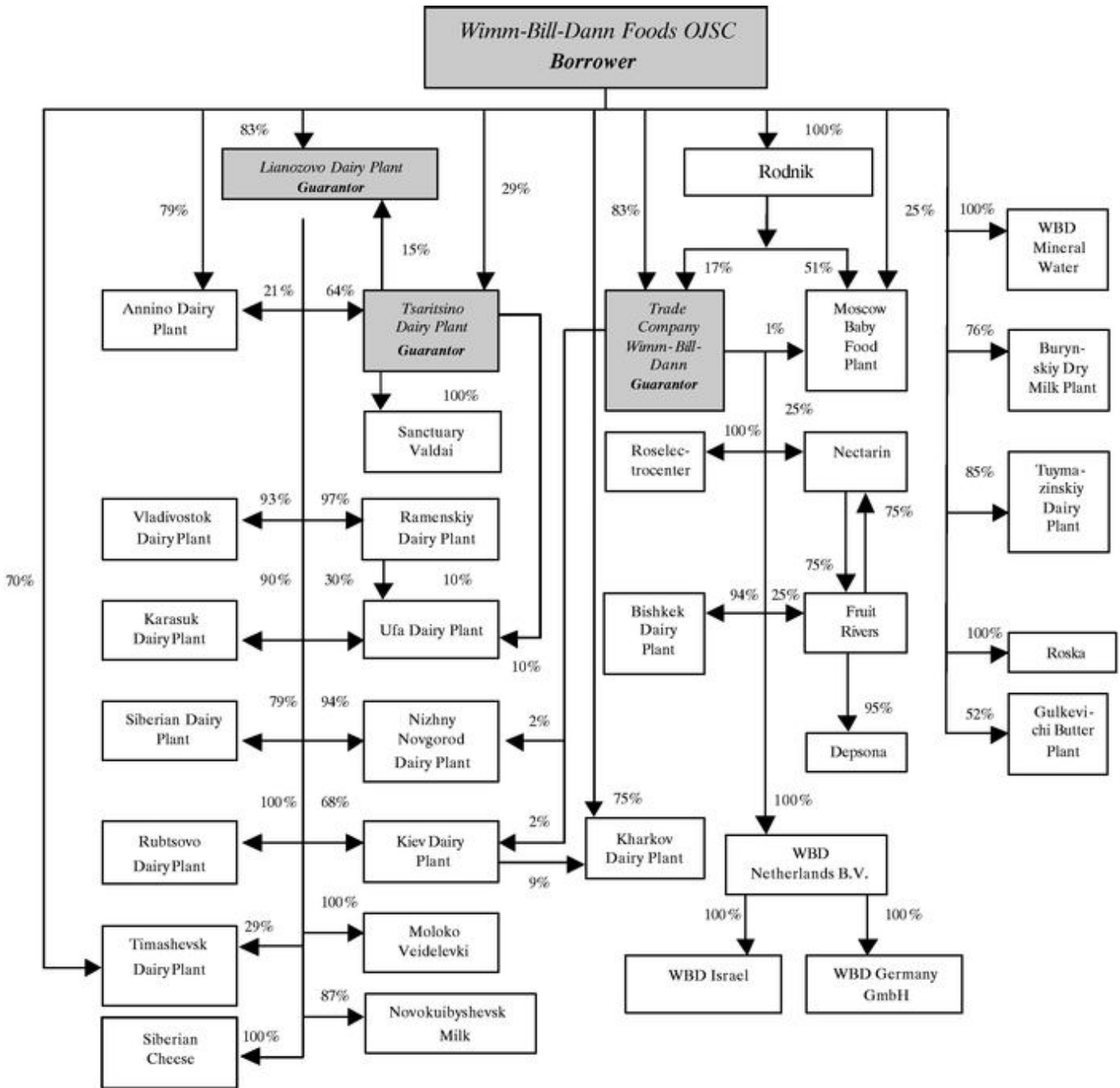
The Russian Ministry of Antimonopoly Policy and Support of Entrepreneurial Activity (the Antimonopoly Ministry) is the governmental agency that regulates the prevention and limitation of monopolistic activity and the support of competition in the market. The Russian Law on Competition and Restriction of Antimonopoly Activity on Commodity Markets prohibits the abuse of a dominant position to limit competition. The Antimonopoly Ministry has included our subsidiary, the Moscow Baby Food Plant, in its register of entities holding a dominant position, as the plant controls over 35% of the market for milk products for babies in Moscow and the Moscow region. A dominant position does not impose additional reporting or other requirements on us; however, because of our dominant position, the Antimonopoly Ministry monitors our activities.

C. Organizational Structure

The following chart sets out the current corporate structure of our holding company and our primary operating subsidiaries, as well as our percentage ownership of the common stock of each subsidiary as of April 1, 2003.

Corporate Organization

The following chart sets out the current corporation structure of our holding company and our primary operating subsidiaries, as well as our percentage ownership of the common stock of each subsidiary as of April 1, 2003.



D. Property, Plants and Equipment

Production facilities

We currently manufacture our products at 23 production facilities, including 20 plants that principally produce dairy products, two plants that produce exclusively juice products and one water production plant. We have made substantial investments to maintain and enhance quality, lower costs and increase productivity. Over 2000, 2001 and 2002, we invested approximately \$271.9 million in the modernization of our existing production facilities and acquisitions of new production assets. Our main production plants are capable of managing the production of a diverse and relatively rapidly changing product range, enabling us to adapt quickly to changes in consumer demand on a seasonal basis or otherwise. We have started extensive modernization and cost cutting programs at a number of our recently acquired plants, such as the Rubtsovsk Dairy Plant, Kiev Dairy Plant, Bishkek Dairy Plant, Nizhny Novgorod Dairy Plant and Ufa Dairy Plant, which have caused a temporary reduction of utilization rates.

We also review our production headcount with the aim to enhance productivity. Sales per employee, calculated on the basis of our total headcount, which is a common measure of productivity used in the food industry, was \$72,000 dollars per employee in 2000, \$60,000 per employee in 2001, and \$50,773 per employee in 2002. The decrease in sales per employee in 2001 was caused by the high number of production employees at the less automated regional plants we acquired during that year, and the further decrease in 2002 was caused by the high growth in our sales and distribution personnel in connection with the expansion of our distribution network into the regions.

The following table contains data regarding our production facilities. It should be noted that raw milk throughput capacity and production output are not identical measures, as different dairy products

require different amounts of raw milk for their production. Product output of a plant therefore depends on the types of products being produced there.

	Year of Acquisition(1)	Year Built	Production in 2000		Production in 2001		Production in 2002	
			Dairy	Juice	Dairy	Juice	Dairy	Juice
			(thousand tons)		(thousand tons)		(thousand tons)	
Moscow and Moscow region								
Lianozovo Dairy Plant	1995	1989	402.3	127.7	438.6	165.7	428.7	203.9
Tsaritsino Dairy Plant	1996	1975	100.3	74.1	123.3	82	192.2	84.7
Moscow Baby Food Plant	1996	1992	36.2	0.0	39.1	0.0	43.13	0.0
Ramenski Dairy Plant	1997	1982	3.8	43.6	2.5	48.9	—	81.8
Central Russia (excluding Moscow)								
Nizhny Novgorod Dairy Plant	1998	1984	31.8	0.0	33.1	2.0	29.8	3.9
Timashevsk Dairy Plant	2000	1990	54.2	0.0	62.5	8.8	66.9	2.4
Ufa Dairy Plant	2001	1971	40.1	0.0	44.1	0.0	45.3	0.0
Dairy Anninskoye Moloko	2001	1978		—	2.6	—	1.2	0.0
Novokuybishevskoe Moloko(6)	2002	1975					3.8	0.0
Roska(6)	2002	1987					1.9	0.0
Depsona(6)	2002	1996						2.2
Asian Russia								
Siberian Dairy Plant	1998	1961	42.2	1.7	58.9	8.0	61.67	21.9
Karasuk Dairy Plant	1999	1952	3.6	0.0	4.9	0.0	5.6	0.0
Vladivostok Dairy Plant	1998	1947	9.9	0.0	12.8	0.6	13.3	5.4
Rubtsovsk Dairy Plant	2001	1954	0.0	0.0	1.0	0.0	4.3	0.0
Other CIS countries								
Kiev Dairy Plant	2001	1973	13.8	0.0	20.8	0.0	23.5	3.6
Kharkov Dairy Plant(6)	2002	1973					10.8	0.0
Bishkek Dairy Plant	2000	1990	6.0	0.0	8.9	0.0	12.2	0.0
Total(5)			744.2(2)	247.1	853.1	316.0	947.8(3)	414.1(4)

Notes:

- (1) "Acquisition" means the purchase of more than 50% of the issued share capital. Only plants acquired by us as of December 31, 2002 are included in this table. Production data for the years 2000 and 2001 for plants acquired by us in 2002 is unavailable and not included in the total production estimates for 2000 and 2001.
- (2) Excluding the plants acquired during 2000 and 2001, this total would be 630,100 tons.
- (3) Excluding the plants acquired during 2002, this total would be 931,300 tons.
- (4) Excluding the plants acquired during 2002, this total would be 411,900 tons.
- (5) Sales volumes of our juice products exceeded our total juice production volumes in 2001 and 2002 due to certain co-packing arrangements we had with third-party juice producers. We purchased 32,542 tons and 54,460 tons of juice from third-party juice producers pursuant to co-packing arrangements in 2001 and 2002, respectively.
- (6) Production data for the years prior to 2002 is unavailable.

At December 31, 2002, certain of our assets served as collateral for loans from Sberbank, Bank of Moscow, the Moscow City Government and others and vendor financing obligations, including:

- Inventory in the amount of \$42.0 million; and
- Property, plant and equipment with a net book value of \$56.7 million.

Item 5 Operating and Financial Review and Prospects

A. Operating Results

The following discussion of our financial condition and results of continuing operations, except where otherwise indicated, should be read in conjunction with (a) our Consolidated Financial Statements and the related notes as of December 31, 2002 and for the year then ended, which have been audited by the independent public accounting firm of Ernst & Young (CIS) Limited; (b) our Consolidated and Combined Financial Statements and the related notes as of December 31, 2001 and 2000 and for the years then ended, which have been audited by the independent public accounting firm of Arthur Andersen ZAO and appear elsewhere in this document, (c) our business description and (d) the risk factors beginning on page 3. Our Consolidated Financial Statements and Consolidated and Combined Financial Statements have been prepared in accordance with the accounting principles generally accepted in the United States ("U.S. GAAP").

Basis of Presentation of Financial Results

We maintain our records and prepare our statutory financial statements in accordance with the domestic (primarily being Russian) accounting principles and tax legislation. The consolidated financial statements presented in this document have been prepared from domestic accounting records for presentation in accordance with U.S. GAAP. These consolidated financial statements and results differ from the financial statements issued for statutory purposes in Russia in that they reflect adjustments not recorded in our domestic books, which are required to present the financial position, results of operations and cash flows in accordance with U.S. GAAP.

In connection with WTO accession talks, the U.S. Department of Commerce and the European Union deemed Russia to have market economy status beginning in 2002. However, the Russian economy continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal inflation, lack of liquidity in the capital markets, and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly affected by the government's continued actions with regard to supervisory, legal, and economic reforms.

Exchange Rates and Inflation

Translation (remeasurement) of domestic currency-denominated financial statements into U.S. dollars has been performed in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign currency translation," as the majority of our operations were in hyperinflationary economies. The objective of this remeasurement process is to produce the same results that would have been reported if the accounting records had been kept in U.S. dollars.

For entities operating in hyperinflationary economies, monetary assets and liabilities have been translated at the year-end exchange rate. Non-monetary assets and liabilities have been translated at historical rates. Share capital has been translated at the date of registration of Wimm-Bill-Dann Foods OJSC ("WBD Foods") and on the dates of additional share issues. Revenues, expenses and cash flows have been translated at the dates of the respective transactions. Remeasurement differences resulting from the use of these rates have been accounted for as currency remeasurement gains and losses in the Consolidated and Combined Statements of Operations.

Our principle future operating cash flows will be generated in Russian rubles. As a result, future movements in the exchange rate between the ruble and U.S. dollar will affect the U.S. dollar carrying value of our monetary assets and liabilities. Such changes may also affect our ability to realize assets as represented in terms of U.S. dollars in the Consolidated and Combined Financial Statements.

As of January 1, 2003, Russia no longer meets the U.S. GAAP definition of a hyperinflationary economy. Therefore, from this date our financial statements will be prepared using the local currency, the ruble, as the functional currency for WBD Foods' Russian subsidiaries, although we will continue to report in U.S. dollars. Therefore, our future currency gains and losses will reflect the combination of our monetary positions in U.S. dollars and euros and exchange rate fluctuations between the ruble and the U.S. dollar and between the ruble and the euro. The potential impact of such a change on our financial position and results of operations cannot be estimated.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on data published by the Central Bank of Russia. These rates may differ from the actual rates used in the preparation of our financial statements and other financial information appearing herein.

	Rubles per U.S. dollar			
	High	Low	Average	Period End
Year ended December 31,				
2002	31.86	30.14	31.35	31.78
2001	30.30	28.16	29.22	30.14
2000	28.87	26.90	28.13	28.16
1999	27.00	20.65	24.67	27.00
1998	20.99	5.96	10.12	20.65

Note:

- (1) The average of the exchange rates on the last business day of each full month during the relevant period.

	Rubles per U.S. dollar	
	High	Low
September 2002	31.65	31.57
October 2002	31.74	31.67
November 2002	31.84	31.76
December 2002	31.86	31.78
January 2003	31.88	31.78
February 2003	31.85	31.55
March 2003	31.60	31.38
April 2003	31.38	31.10
May 2003	31.12	30.62

On June 11, 2003 the exchange rate between the ruble and the U.S. dollar was approximately 30.51 rubles per \$1.00.

The following table shows the rates of inflation in Russia for the years indicated:

Year ended December 31,	Inflation rate
2002	15.1 %
2001	18.6 %
2000	20.2 %
1999	36.5 %
1998	84.4 %

Note:

(1) Source: The Russian State Committee on Statistics.

Our results of operations are affected by the relationship between the rate of inflation and the rate of devaluation of the ruble against the U.S. dollar (i.e., by the real appreciation or depreciation of the ruble against the U.S. dollar). As shown in the following table, there is no direct relationship between these two rates, and in 2002, 2001 and 2000 the ruble appreciated in real terms against the U.S. dollar (by way of contrast, the ruble depreciated in real terms in 1998):

	2002	2001	2000
Inflation	15.1 %	18.6 %	20.2 %
Devaluation of the ruble relative to the U.S. dollar in nominal terms	5.4 %	7.0 %	4.3 %

Notes:

(1) Source: The Russian State Committee on Statistics.

(2) Computed using the official exchange rate published by the Central Bank of Russia.

Although it is not practicable to provide reasonably quantifiable information in respect of all income statement captions, the following tables show how the real appreciation of the ruble against the U.S. dollar positively affected our reported net sales for the years ended December 31, 2002, 2001 and 2000.

	2002	2001	% Increase
Net sales (in U.S.\$ thousand) as reported in our consolidated and combined income statement	\$ 824,734	\$ 674,616	22.3
Indexed ruble sales	27.3 billion	23.9 billion	14.2

	2001	2000	% Increase
Net sales (in U.S.\$ thousand) as reported in our consolidated and combined income statement	\$ 674,616	\$ 465,411	45.0
Indexed ruble sales	20.7 billion	17.1 billion	21.1

Note:

(1) Ruble sales multiplied by the relevant inflation rate to ensure ruble revenues for both years are at constant rubles as of December 31, 2002 and 2001, respectively.

Consequently, our revenues, as adjusted for inflation, increased by 14.2% and 21.1% compared with increases of 22.3% and 45.0%, after translation into U.S. dollars, in the years ended December 31, 2002 and 2001, respectively.

A significant part of our costs and expenditures, as well as liabilities, are either denominated in or tightly linked to the U.S. dollar and the euro. These include capital expenditures and borrowings as well as costs of packaging materials, juice concentrates, certain other raw materials and to a more limited extent, salaries. As a result, devaluation of the ruble against the U.S. dollar or the euro can adversely affect us by increasing our costs in ruble terms. If we cannot increase our ruble selling prices in line with ruble devaluation due to competitive pressures, our margins will suffer. Other things being equal, it is easier for us to maintain our margins when the ruble is appreciating in real terms against the U.S. dollar or the euro. See also "Item 4. Information on Our Company—B. Business Overview—Market Trends and Competition." Additionally, if the ruble declines and prices cannot keep pace, we could have difficulty covering our U.S. dollar-denominated or euro-denominated costs or repaying our U.S. dollar-denominated or euro-denominated indebtedness.

The decline in the value of the ruble against the U.S. dollar also reduces the U.S. dollar value of tax losses carried forward and the deductible amount of depreciation of our property, plant and equipment since their basis for tax purposes is denominated in rubles at the time of the investment or acquisition. Any increased tax liability would increase our total expenses.

Generally, as the value of the ruble declines against the U.S. dollar, net ruble monetary liability positions result in currency remeasurement gains and net ruble monetary asset positions result in currency remeasurement losses. As the value of the euro strengthens against the U.S. dollar, net euro monetary liability positions result in currency remeasurement losses and net euro monetary asset positions result in currency remeasurement gains. Our net ruble monetary liability position decreased from \$70.4 million at December 31, 2001 to \$6.4 million at December 31, 2002 and during 2002 the ruble declined against the U.S. dollar. Our net euro monetary liability position increased to \$28.5 million at December 31, 2002 from \$18.9 million at December 31, 2001 and the euro strengthened against the U.S. dollar. As a result of the combination of our monetary positions in rubles and euros and exchange rate fluctuations in the year ended December 31, 2002, we recognized a currency remeasurement loss of \$2.9 million. As a result of the combination of our monetary positions in rubles and euros and exchange rate fluctuations in the year ended December 31, 2001, we recognized a currency remeasurement gain of \$2.5 million. Currency remeasurement gains and losses were reflected in our Consolidated and Combined Statements of Operations. We have not engaged in any activities to hedge our dollar- or euro-denominated liabilities, as the market for these types of financial instruments in Russia is not well developed and costs of these instruments are relatively high. See "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk" for a presentation of our ruble-, dollar- and euro-denominated monetary assets and liabilities at December 31, 2002 and 2001. See also "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Financial Condition."

Certain of our costs, such as salaries and supplies, are also sensitive to rises in the general price level in Russia. In the future, due to competitive pressures, we may not be able to raise the prices for our products sufficiently to preserve operating margins. Accordingly, high rates of inflation could increase our costs and decrease our operating margins. See also "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk".

Results of Continuing Operations

The following table summarizes the results of our continuing operations for the years ended December 31, 2002, 2001 and 2000:

	2002	%	2001	%	2000	%
	(in thousands)		(in thousands)		(in thousands)	
Sales	\$ 824,734	100.0	\$ 674,616	100.0	\$ 465,411	100.0
Cost of sales	(579,707)	70.3	(492,990)	73.1	(349,077)	75.0
Gross profit	245,027	29.7	181,626	26.9	116,334	25.0
Selling and distribution expenses	(109,527)	13.3	(62,213)	9.2	(34,138)	7.3
General and administrative expenses	(62,955)	7.6	(54,461)	8.1	(43,025)	9.2
Other operating expenses	(6,497)	0.8	(4,498)	0.7	(1,241)	0.3
Operating income	66,048	8.0	60,454	9.0	37,930	8.1
Financial income and expenses, net	(14,131)	1.7	(10,581)	1.6	(5,664)	1.2
Provision for income taxes	(14,249)	1.7	(14,166)	2.1	(9,568)	2.1
Minority interest	(1,922)	0.2	(3,962)	0.6	(1,453)	0.3
Income from continuing operations	\$ 35,746	4.3	\$ 31,745	4.7	\$ 21,245	4.6

Note:

(1) Expressed as a percentage of sales of the relevant year.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Sales

Sales increased by 22.3% to \$824.7 million in 2002 from \$674.6 million in 2001. The dairy segment continued to be our largest business segment representing 68.3% of net sales in 2002 compared to 72.0% in 2001.

	Year ended December 31,			
	2002	%	2001	%
	(in thousands)		(in thousands)	
Dairy products	\$ 562,982	68.3	\$ 485,452	72.0
Juice products	261,752	31.7	189,164	28.0
	\$ 824,734	100	\$ 674,616	100.0

Sales in our dairy segment increased to \$563.0 million in 2002 from \$485.5 million in 2001. Of this 16.0% increase, 11.7% related to volume growth (9.7% organic and 2.0% from acquisitions) and 4.3% related to an increase in prices in U.S. dollar terms. The average prices of our dairy products in U.S. dollar terms increased to \$0.60 per kilogram in 2002 from \$0.57 per kilogram in 2001. We sold 946.0 thousand tons in 2002 and 847.2 thousand tons of dairy products in 2001. Our improved dairy sales were due to our increased presence in the regions, the development of additional products in our product portfolio and increased advertising and marketing activities.

Sales in our juice segment increased to \$261.7 million in 2002 from \$189.2 million in 2001. This 38.4% increase was due to organic growth in volumes, which contributed 45.4% to the sales growth, and a decrease in average prices, which had a negative effect on sales growth of 7.0%. Our increased juice sales volumes were due to our increased presence in the regions, the development of our product portfolio and increased advertising and marketing activities. We sold 476.7 million liters of juice in 2002 and 327.1 million liters of juice in 2001. In 2002, the Russian juice industry experienced significant price competition. As a result of this and due to the increased share of lower-price, lower-quality brands in

our juice product portfolio, primarily in sales to the regions where per-capita income is lower, the average prices of our juice products in U.S. dollar terms decreased to \$0.55 per liter in 2002 from \$0.58 per liter in 2001.

Sales per employee decreased to \$51,000 in 2002 from \$60,000 in 2001 as a result of our acquisitions during 2002 of businesses with comparatively low sales per employee. The average number of employees increased to 16,243 in 2002 from 11,335 in 2001.

Cost of Sales

Cost of sales primarily consists of expenses relating to raw materials (concentrates for juices, raw milk for dairy products and packaging materials for all products), as they comprised 87.3% and 88.9% of our total cost of sales in 2002 and 2001, respectively. The table below sets forth these costs for both 2002 and 2001:

	Year ended December 31,			
	2002	%	2001	%
	(in thousands)		(in thousands)	
Raw materials	\$ 506,086	87.3	\$ 438,360	88.9
Personnel	26,548	4.6	20,103	4.1
Depreciation	14,983	2.6	10,609	2.2
Utilities	10,971	1.9	8,734	1.8
Goods for resale	13,770	2.4	10,273	2.1
Other	7,349	1.2	4,911	0.9
	<u>\$ 579,707</u>	<u>100.0</u>	<u>\$ 492,990</u>	<u>100.0</u>

Raw materials costs increased by 15.4% between 2002 and 2001 but decreased as a percentage of sales to 61.4% in 2002 from 65.0% in 2001. In our dairy segment, the raw materials to sales ratio decreased to 60.8% in 2002 from 69.4% in 2001 due to an increase in selling prices, an increase in the share of higher value-added products in the product portfolio and lower raw milk prices compared to 2001. In our juice segment, the raw materials to sales ratio increased to 62.6% in 2002 from 53.8% in 2001 due to lower average selling prices and the higher cost of concentrates and other ingredients resulting, in part, from bad harvests and poor weather conditions in juice concentrate-producing regions. The higher cost of the major components of our juice products adversely affected the raw materials to sales ratio despite the increase in the share of lower-end brands in the product portfolio. In both segments, economies of scale achieved on purchases of packaging materials had a positive effect on the raw materials to sales ratios. In the dairy segment, approximately 60% of our raw material costs were ruble-denominated and 40% were hard-currency-denominated. In the juice segment, substantially all of our raw material costs were hard-currency denominated.

See also "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—If we do not continue to be an efficient producer in a highly competitive environment, particularly in relation to purchases of our packaging and raw materials and our advertising and marketing expenditures, our results of operations will suffer."

Personnel costs increased by 32.1% between 2002 and 2001. The average number of production personnel has increased to 8,812 in 2002 from 7,162 in 2001 resulting from various acquisitions in 2002 and 2001 and the hiring of new production personnel as a result of installing new production lines at almost every production site. Our payroll cost per production employee increased by 7.1% to approximately \$3,000 in 2002 from \$2,800 in 2001 due to recruitment of higher-qualified personnel, the increase in pay rates throughout Russia, as well as the effect of aligning the level of salary at plants we acquired in 2001 to the salary levels at our existing plants.

Depreciation increased by 41.2%, reflecting additional capital expenditures in 2001 and 2002.

Goods for resale include various dairy products. In 2002, we further increased our purchases of cheese which we purchased from independent cheese producers. These purchases were necessary to effect our increased sales of cheese.

Utility costs increased by 25.6% in 2002 due to the increase in our production and warehouse facilities, as well as an increase in electricity and gas tariffs.

Gross Margin

Our gross profit increased by 34.9% to \$245.0 million in 2002 from \$181.6 million in 2001. Our gross margin also increased to 29.7% in 2002 from 26.9% in 2001.

Gross margin in our dairy segment increased to 29.3% in 2002 from 22.8% in 2001. This increase was primarily due to lower prices for raw milk, and an increase in the share of high value-added products in our dairy segment product portfolio. Improved economies of scale also had a positive impact on the cost of packaging materials and, therefore, the gross margin.

Gross margin in our juice segment decreased to 31.0% in 2002 from 37.9% in 2001 primarily due to higher prices on juice concentrates and berries, the impact of consumer preference for low-price, lower-quality juice products primarily in the regions outside of Moscow and St. Petersburg where per-capita income is lower and competitive pricing pressures. In 2002, the Russian juice industry experienced significant price competition due to our main competitors' attempts to gain market share by using price dumping tactics. See "Item 3. Key Information—D. Risk Factors—Risks Relating to our Business and Industry—Increased competition and consumer preference for low-price, lower-quality juice products primarily in the regions outside Moscow and St. Petersburg have resulted in declining profit margins in our juice segment, which may adversely affect our results of operations."

Selling and Distribution Expenses

Selling and distribution expenses increased by 76.1% between 2002 and 2001. As a percentage of sales, selling and distribution expenses increased to 13.3% in 2002 from 9.2% in 2001. Our selling and distribution expenses in 2002 and 2001 were as follows:

	Year ended December 31,	
	2002	2001
	(in thousands)	
Advertising and marketing	\$ 34,857	\$ 19,562
Personnel	30,620	15,978
Transportation	24,700	17,144
Materials and supplies	6,311	2,597
Warehouse	5,228	2,408
Other	7,811	4,524
Total selling and distribution expenses	\$ 109,527	\$ 62,213

Advertising and marketing expenses increased in 2002 by \$15.3 million, or 78.2% in absolute terms, and by 1.3% in relation to sales, to 4.2% in 2002 from 2.9% in 2001, due to the continuation of our regional expansion program and annual media inflation on leading national television channels which exceeded 80%. Despite these price increases, we were able to obtain volume discounts and thus manage the cost increase more effectively. In 2002, TV advertising expenses represented more than half of our advertising budget. In 2002, 37.0% of our revenues came from sales in the regions as compared to 29.5% in 2001. The increase in regional sales was achieved through the strengthening of our

advertising presence in these markets. The share of regional advertising out of our total advertising and marketing expenses increased to 14.1% in 2002 from 2.5% in 2001.

Personnel expenses increased by 91.6% in 2002 as compared to 2001. This increase was due to the substantial increase of our sales force as part of our regional expansion program, as well as the acquisition of new subsidiaries. The average number of employees in our selling and distribution department increased to 4,326 in 2002 from 1,996 in 2001 as we continued the expansion of our distribution network into the regions and to increase our direct sales to retailers. In 2002, the higher costs of personnel arising from the increase in our direct sales to retailers were offset in part by the higher selling prices we were able to charge retailers as compared to independent distributors, which had the effect of increasing our gross margin compared with 2001. Our payroll cost per employee decreased by 11.3% to \$7,100 in 2002 from \$8,000 in 2001 due to our acquisition of new subsidiaries and the setting up of new distribution centers in the regions where average salaries are lower. Our personnel costs as a percentage of sales increased to 3.7% in 2002 from 2.4% in 2001.

Transportation costs, which primarily consist of external transportation costs, increased by 44.1% in 2002 as compared to 2001. Our transportation expenses as a percentage of sales increased to 3.0% in 2002 from 2.5% in 2001. This was mainly due to the expansion of our distribution network into the regions and an increase in the number of routes for both our juice and dairy segments, which allowed us to increase the share of our sales in various regions.

General and Administrative Expenses

General and administrative expenses increased by 15.6% in 2002 as compared to 2001, but decreased as a percentage of sales to 7.6% in 2002 from 8.1% in 2001. Our general and administrative expenses in 2002 and 2001 were as follows:

	Year ended December 31,	
	2002	2001
	(in thousands)	
Personnel	\$ 33,800	\$ 29,016
Taxes other than income tax	11,872	8,452
Audit, consulting and legal fees	2,613	2,170
Materials and supplies	2,399	1,623
Depreciation	2,075	1,111
Communication costs	1,800	1,324
Rent	1,531	1,176
Insurance	1,040	1,235
Security expenses	559	2,210
Other	5,266	6,144
Total general and administrative expenses	\$ 62,955	\$ 54,461

Personnel expenses increased by 16.5% due to an increase in the average number of administrative personnel to 3,105 in 2002 from 2,177 in 2001 resulting from our acquisitions in 2002 and 2001 and the need for higher qualified personnel as a result of our public company status. Our average cost per employee decreased to \$10,900 in 2002 from \$13,300 in 2001 due to lower salary levels in the regions.

Taxes, other than income tax, include road users tax, which is levied on our sales, and advertising tax, which is levied on our advertising expenses. The increase in these taxes of 40.5% in 2002 compared to 2001 was due to higher sales and advertising expenses in 2002 compared with 2001.

Operating Income

Operating income increased to \$66.0 million in 2002 from \$60.5 million in 2001, representing an increase of 9.1%. Operating income as a percentage of sales decreased to 8.0% in 2002 from 9.0% in 2001 due to selling and distribution expenses as a percentage of sales being higher in 2002 compared with 2001. In the dairy segment, our operating income increased by 49.8% to \$66.2 million in 2002, or 11.8% in relation to sales, from \$44.2 million in 2001, or 9.1% in relation to sales. In the juice segment, our operating income decreased by 45.2% to \$18.4 million in 2002, or 7.0% in relation to sales, from \$33.5 million in 2001, or 17.7% in relation to sales. The decrease was due to the decrease in the gross margin and an increase in advertising, transportation and sales-force expenses due to our continuing regional expansion program.

Our operating income in 2002 and 2001 benefited from certain tax planning initiatives to reduce our operating taxes. These initiatives were subject to unsuccessful challenge by the Russian tax authorities in respect of the years ended December 31, 1997 and 1998, and may be subject to challenge in respect of later periods. If successful, any such challenge could result in significant financial losses. See Note 30 to our Consolidated and Combined Financial Statements as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000 for a quantification of the benefits we have obtained from these initiatives and our potential losses if the initiatives are successfully challenged. We will vigorously defend any claim that these initiatives are contrary to Russian tax law.

We significantly reduced these tax initiatives in 2002 following positive changes in tax legislation. We will seek to mitigate the adverse effect of the increase in operating taxes resulting from the reduction of these initiatives by increases in selling prices in U.S. dollar terms to the extent the competition allows us to do so. See also "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Financial Condition."

Financial Income and Expenses

Financial income and expenses comprised the following:

	Year ended December 31,	
	2002	2001
	(in thousands)	
Interest and bank charges	\$ 15,025	\$ 13,236
Interest income	(2,928)	(126)
Currency remeasurement losses (gains)	2,860	(2,483)
Other financial (income) expense	(826)	(46)
Total financial income and expense, net	\$ 14,131	\$ 10,581

Interest and bank charges increased by 13.5% in 2002 compared to 2001. This resulted from an increase in our short- and long-term borrowings, including vendor financing obligations, to \$186.0 million at December 31, 2002 from \$143.5 million at December 31, 2001. The decrease in weighted average interest rates on our debt resulted from our increased credit worthiness due to our public company status and a general reduction of interest rates in Russia.

Interest income of \$2.9 million resulted from the investment of cash proceeds received from our IPO in February 2002.

Currency remeasurement gains in 2001 became losses in 2002 as a result of the following developments. As the value of the ruble declined against the U.S. dollar, net ruble monetary liability positions result in currency remeasurement gains and net ruble monetary asset positions result in currency remeasurement losses. As the value of the euro strengthens against the U.S. dollar, net euro

monetary liability positions result in currency remeasurement losses and net euro monetary asset positions result in currency remeasurement gains. Our net ruble monetary liability position decreased from \$70.4 million at December 31, 2001 to \$6.4 million at December 31, 2002 and during 2002 the ruble declined against the U.S. dollar. Our net euro monetary liability position increased to \$28.5 million from \$11.8 million at December 31, 2001 at December 31, 2002 and the euro strengthened against the U.S. dollar. As a result of the combination of our monetary positions in rubles and euros and exchange rate fluctuations in the year ended December 31, 2002, we recognized a currency remeasurement loss of \$2.9 million. As a result of the combination of our monetary positions in rubles and euros and exchange rate fluctuations in the year ended December 31, 2001, we recognized a currency remeasurement gain of \$2.5 million.

Provision for Income Taxes

Our provision for income taxes for the years ended December 31, 2002 and 2001 was as follows:

	Year ended December 31,	
	2002	2001
	(in thousands)	
Current provision	\$ 14,211	\$ 11,993
Deferred charge	38	2,173
Total provision for income taxes	\$ 14,249	\$ 14,166

Provision for income taxes amounted to \$14.2 million in 2002 and 2001. These provisions comprise current income tax charges of \$14.2 million in 2002 and \$12.0 million in 2001, and deferred tax charges of \$0.04 million in 2002 and \$2.2 million in 2001. Deferred tax charges arise on temporary differences between the bases of computing income under domestic principles and U.S. GAAP.

In 2002 our effective income tax rate was 27.4% compared to the Russian statutory income tax rate of 24.0%. The difference in the tax rates was primarily due to non-deductible expenses for Russian statutory taxation purposes, change in valuation allowance for deferred tax asset and tax benefits for small enterprises. In 2001 our effective income tax rate was 28.4% compared to the Russian statutory income tax rate of 35.0%. The difference was primarily due to tax benefits for small enterprises and baby food products and investment and social infrastructure maintenance credits, non-deductible expenses for Russian statutory taxation purposes, change in valuation allowance for deferred tax asset and recognition of a deferred tax liability resulting from the tax effect of our investment programs in the Lianozovo Dairy Plant ("LMK") and the Tsaritsino Dairy Plant ("TsMK"). See "—Acquisitions" and Note 19 to our Consolidated and Combined Financial Statements as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000. As a result of the adoption of Chapter 25 of the Second Part of the Tax Code and with effect from January 1, 2002, the income tax rate in Russia was reduced from 35% to 24% and income tax benefits, being investment and social infrastructure maintenance credits and baby food products benefit, were abolished.

In 2002 and 2001, we benefited from the small enterprise tax legislation, which was used in the companies operating in the juice segment. Under income tax legislation which was in effect before January 1, 2002 small enterprises involved in certain activities, such as food processing, were exempt from income taxes for the first two years of operations and, in the third and fourth years, income taxes were levied at a rate of 25% and 50% of the income tax rate, respectively. Had we not taken advantage of the small enterprise tax benefit in 2002 and 2001, our income tax expense would have been higher by \$5.7 million and \$14.1 million, respectively. The income tax benefit for small enterprises was abolished from January 1, 2002, except that the benefit continues to be available to enterprises that were established before July 1, 2001. Starting from January 1, 2002 our juice production has been primarily concentrated in two small enterprises, Fruit Rivers and Nectarin, which were registered in March and April 2001, respectively. As a result, we will continue to benefit from the small enterprise tax legislation for the next several years in the manner described above. We intend to continue to structure our juice business to meet the technical requirements of the small enterprise tax legislation, to the extent it remains in effect. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Financial Condition—The elimination of a tax privilege from which we currently benefit would materially adversely affect our results of operations."

Minority Interest

The minority interests in the Consolidated and Consolidated and Combined Statement of Operations reflect the net income and losses of our subsidiaries that are attributable to the minority shareholders in those subsidiaries. In 2002 and 2001, net profits on continuing operations attributable to minority shareholders of our subsidiaries reduced to \$1.9 million from \$4.0 million as a result of acquisitions by us of additional shares in our subsidiaries, the Moscow Baby Food Plant (ZDMP), LMK and Kiev Dairy No. 3 ("KMMZ").

Net Income

Net income from continuing operations in 2002 was \$35.7 million (4.3% of sales), compared with \$31.7 million (4.7% of sales) in 2001.

Net profit (before corporate and common expenses, deferred tax and minority interest) of our dairy segment was \$44.6 million (7.9% of dairy segment sales) in 2002 and \$26.8 million (5.5% of dairy segment sales) in 2001. Net profit (before corporate and common expenses, deferred tax and minority interest) of our juice segment was \$12.7 million (4.9% of juice segment sales) in 2002 and \$28.3 million (15.0% of juice segment sales) in 2001. Our common and corporate expenses, including depreciation, legal, audit and consulting fees, head office maintenance expenses, expenses on global marketing research, charity and holding company personnel expenses were \$19.6 million and \$17.2 million in 2002 and 2001, respectively, and are included in general and administrative expenses as discussed above. See Note 28 to our Consolidated Financial Statements as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000 for a detailed analysis of our segments.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Sales

Sales for the year ended December 31, 2001 increased by 45.0% compared to the year ended December 31, 2000, from \$465.4 million to \$674.6 million. The main reasons for our improved sales in both the dairy and juice segments were increased advertising and marketing, as evidenced by a 36.7% increase in our advertising and marketing expenditures as compared with 2000. Sales in each of our two segments were as follows:

	Year ended December 31,			
	2001	%	2000	%
	(in thousands)		(in thousands)	
Dairy products	\$ 485,452	72.0	\$ 325,482	70.0
Juice products	189,164	28.0	139,929	30.0
	\$ 674,616	100.0	\$ 465,411	100.0

In 2001, our dairy products sales increased by 49.1% compared to 2000, from \$325.5 million to \$485.5 million. This resulted from a 20.2% increase related to the acquisition of new subsidiaries, a 13.3% increase in volumes related to our existing business and a 15.6% increase in prices in U.S. dollar terms related to our existing business. Our average price on dairy products increased from \$0.52 per kilogram in 2000 to \$0.57 per kilogram in 2001. We sold 847.2 thousand tons of dairy products in 2001 and 630.2 thousand tons of dairy products in 2000. The reasons for our improved sales of dairy products were changes in our products portfolio resulting in increased sales of products with higher prices such as "Wonder" dessert dairy products in the Moscow region and sterilized milk in other regions, a continued move to direct sales to retailers and an increase in the number of our merchandising personnel who work with the retailers to increase the visibility and awareness of our product range.

Juice segment sales increased by 35.2% to \$189.2 million in 2001 from \$139.9 million in 2000. The reasons for our improved sales of juice products were numerous advertising and marketing campaigns, advertising and marketing initiatives independently undertaken by retailers, improvements in customer service and increased penetration into regional markets. Our juice products sales increase resulted from a 31.7% increase in volumes and a 3.5% increase in prices in U.S. dollar terms. In the juice segment, our average price in U.S. dollar terms increased to \$0.58 in 2001 from \$0.56 per liter in 2000. We sold 327.1 million liters of juices in 2001 and 250.3 million liters of juices in 2000.

Sales per employee decreased to \$60,000 in 2001 from \$72,000 in 2000 as a result of our acquisitions during 2001 of businesses with comparatively low sales per employee. The average number of employees increased to 11,335 as of December 31, 2001 from 6,466 as of December 31, 2000.

Cost of Sales

Expenses relating to raw materials (concentrates for juices, milk for dairy products and packaging for all sales), comprised 88.9% and 91.5% of our total cost of sales in 2001 and 2000, respectively. The table below shows our cost of sales for both 2001 and 2000:

	Year ended December 31,			
	2001	%	2000	%
	(in thousands)		(in thousands)	
Raw materials	\$ 438,360	88.9	\$ 319,344	91.5
Personnel	20,103	4.1	11,939	3.4
Depreciation	10,609	2.2	7,993	2.3
Goods for resale	10,273	2.1	2,021	0.6
Utilities	8,734	1.8	3,457	1.0
Other	4,911	0.9	4,323	1.2
	<u>\$ 492,990</u>	<u>100.0</u>	<u>\$ 349,077</u>	<u>100.0</u>

Raw material costs increased by 37.3% between 2001 and 2000 but decreased as a percentage of sales from 68.6% to 65.0%. The decrease in the raw materials to sales ratio was due to (1) an increase in the share of value-added products in our products portfolio; (2) an increase in sales prices in U.S. dollar terms and (3) a slight decrease in dairy segment packaging prices and in juice segment concentrate prices in U.S. dollar terms as a result of our increased use of Russian suppliers and a reduction in customs duties. We increased our selling prices in line with increases in the costs of our ruble-denominated raw materials. This, together with the fact that inflation significantly exceeded the devaluation of the ruble versus the U.S. dollar during 2001, resulted in a reduction of our raw material costs as a percentage of sales. In the dairy segment, approximately 60% of our raw material costs are ruble-denominated and 40% are hard-currency-denominated. In the juice segment, substantially all of our raw material costs are hard-currency denominated.

Personnel costs increased by 68.4% between 2001 and 2000 due to an overall rise in salaries in Russia and the hiring of personnel with higher qualifications than we previously employed. Further, the movement in personnel costs also reflected the increase in our sales, as salaries and wages were aligned with changes in production levels, as well as the acquisitions of new subsidiaries that were less efficient than our existing subsidiaries. The average number of production personnel increased to 7,162 in 2001 from 4,280 in 2000. Our payroll cost per employee remained stable at approximately \$2,800 in 2001 and in 2000.

Depreciation increased by 32.7%, reflecting the additional capital expenditure in 2001 and 2000.

Goods for resale include various dairy products, and in particular cheese, which increased significantly in 2001 compared with 2000. As we did not produce cheese in significant volumes during

2001, we purchased cheese from independent cheese producers and sold these cheese products along with our other dairy products in order to satisfy our customers' desires for more extensive dairy product lines.

Utility costs increased by 152.6% as a result of rises in electricity and gas tariffs, a temporary switch to state-provided water at LMK due to the reconstruction of its own water well facilities and the installation and use of more energy-intensive production equipment.

Gross Margin

Our gross margin for 2001 showed an improvement compared to 2000, increasing to 26.9% in 2001 from 25.0% in 2000. We largely maintained our dairy segment gross margin at 22.7% in 2001 as compared to 2000 with only a 0.5% reduction from 2000 levels despite the acquisition of several new subsidiaries with low gross margins. The increase in our juice segment gross margin from 29.8% to 37.9% resulted from (1) an introduction of new products with higher gross margins; (2) a slight decrease in raw material prices in U.S. dollar terms; and (3) a significant decrease in customs duties for certain concentrates. We also raised selling prices in line with the inflation of the ruble; therefore, our juice segment gross margin also improved in 2001 as a result of a higher inflation rate in 2001 compared to the depreciation rate of the ruble against the U.S. dollar and a significant portion of hard-currency-denominated juice production expenses.

Selling and Distribution Expenses

Selling and distribution expenses increased by 82.2% between 2001 and 2000. As a percentage of sales, selling and distribution expenses increased to 9.2% in 2001 from 7.3% in 2000. The composition of such expenses was as follows:

	Year ended December 31,	
	2001	2000
	(in thousands)	
Advertising and marketing	\$ 19,562	\$ 14,305
Transportation	17,144	6,743
Personnel	15,978	8,982
Warehouse	2,408	2,088
Other	7,121	2,020
	<u>\$ 62,213</u>	<u>\$ 34,138</u>

Advertising and marketing expenses increased by 36.7% as we continued our policy of increasing our market share and as we introduced new products into the market. Advertising and marketing expenses in the dairy segment increased by 45.5% and in the juice segment by 24.6%. Advertising and marketing expenses increased more in the dairy segment due to increasing competition in the Russian dairy sector. Advertising and marketing expenses also increased in connection with the promotion of "Ginger Up", a new brand of dairy and juice products for children. The increase in advertising and marketing expenses of our juice segment resulted from more severe competition in the juice market in 2001 in comparison with 2000 and the expansion of advertising and marketing campaigns into regional markets. In 2001, TV advertising expenses represented more than half of our advertising budget. Advertising and marketing expenses as a percentage of sales were stable as compared to 2000 at approximately 3%.

Personnel costs increased by 77.9% in both the dairy segment and the juice segment. This was due to a rise in the number of people we employed, which primarily resulted from the increase in the size of our sales and distribution department targeting direct sales to retailers. The average number of employees in our selling and distribution department increased to 1,996 in 2001 from 881 in 2000. In

2001, the higher costs of personnel arising from the increase in our direct sales to retailers were offset in part by the higher selling prices we were able to charge retailers as compared to independent distributors, which had the effect of increasing our gross margin compared with 2000. We also expanded our distribution network to the regions, which resulted in more people being on the payroll. Our payroll cost per employee decreased by 21.6% to \$8,000 in 2001 from \$10,200 in 2000 due to the acquisition of new subsidiaries with 865 sales and distribution personnel with comparatively low salaries. Our personnel costs as a percentage of sales increased to 2.4% in 2001 from 1.9% in 2000.

Transportation costs, which primarily consist of external transportation costs, increased by 154.2%. Our transportation expenses as a percentage of sales increased to 2.5% in 2001 from 1.4% in 2000. This was primarily due to an increase in our juice-segment sales, especially in various regions of Russia. In contrast, transportation expenses in our milk segment have always been relatively low due to the closer location of customers to our production facilities caused by the short shelf life of our milk products, although there was an increase in these expenses during 2001 due to increased yogurt sales and an increase in intra-group sales with the objective of raising sales in our regional companies.

General and Administrative Expenses

General and administrative expenses increased by 26.6% in 2001 compared to 2000, but decreased from 9.2% in 2000 to 8.1% in 2001 as a percentage of sales. The composition was as follows:

	Year ended December 31,	
	2001	2000
	(in thousands)	
Personnel	\$ 29,016	\$ 14,756
Taxes other than income tax	8,452	19,780
Security	2,210	1,721
Audit, consulting and legal	2,170	1,222
Insurance	1,235	178
Depreciation	1,111	575
Other	10,267	4,793
	\$ 54,461	\$ 43,025

Personnel expenses increased by 96.6% as a result of the increase of our payroll costs per employee, to \$13,300 in 2001 from \$11,300 in 2000, reflecting overall labor market conditions and the establishment of Wimm-Bill-Dann Foods OJSC as our holding company. The average number of our administration personnel increased to 2,177 in 2001 from 1,305 in 2000.

Taxes other than income tax include road users tax, social infrastructure and maintenance tax, which are taxes that are levied on our sales, and advertising tax, which is levied on our advertising expenses. The overall decrease in such taxes amounted to 57.3%, which reflected a decrease in the rates of certain taxes effective from January 1, 2001.

From January 1, 2001, the road users tax rate was reduced to 1.0% from 2.5%, and the social infrastructure and maintenance tax was abolished from its previous rate of 1.5%. In 2001 and 2000, the road users tax charge amounted to \$6.8 million and \$11.6 million, respectively, and the social infrastructure and maintenance tax charges were \$0 and \$6.9 million, respectively. Due to the increase in our advertising and marketing expenses, our advertising and other taxes charge increased to \$1.7 million in 2001 from \$1.2 million in 2000.

In 2001, we launched an insurance program for technological facilities and equipment at our plants, which caused our insurance expenses to increase to \$1.2 million in 2001 from \$0.2 million in 2000.

Operating Income

Operating income increased significantly to \$60.5 million in 2001 from \$37.9 million in 2000, representing an increase of 59.6%. Operating income as a percentage of sales improved from 8.1% in 2000 to 9.0% in 2001. In the dairy segment, our operating income increased from \$29.5 million in 2000 to \$44.2 million in 2001, representing an increase of 49.8%. In 2001, we made several acquisitions of new subsidiaries in the dairy segment. However, such acquisitions did not increase our operating income in 2001. In the juice segment, our operating income increased to \$33.5 million in 2001 from \$18.7 million in 2000, representing an increase of 79.1% which resulted from new high-margin products and a decrease in the cost of certain raw materials.

Our operating income in 2001 and 2000 benefited from certain tax planning initiatives to reduce our operating taxes. See "—Year Ended December 31, 2002 Compared to Year Ended December 31, 2001."

Financial Income and Expenses

Financial income and expenses comprised the following:

	Year ended December 31,	
	2001	2000
	(in thousands)	
Interest and bank charges	\$ 13,236	\$ 6,738
Currency remeasurement gains	(2,483)	(1,116)
Other	(172)	42
	<u>\$ 10,581</u>	<u>\$ 5,664</u>

Interest and bank charges increased by 96.4% in 2001 over 2000. This resulted from an increase in our short- and long-term borrowings as of December 31, 2001 compared with December 31, 2000 from \$67.8 million to \$122.0 million, respectively. In 2001, we made significant investments in property, plant and equipment and in the acquisition of new dairy subsidiaries which resulted in an increase in the need for debt financing. We believe that our credit worthiness increased as a result of our strengthened balance sheet in 2001, and that this factor led to a decrease in weighted average interest rates and reduced bank charges.

Our currency remeasurement gains represented exchange gains and losses arising on re-translation of ruble- and euro-denominated monetary assets and liabilities into U.S. dollars. Currency measurement gains increased during 2001, which is a reflection of an increase in our net ruble- and euro-denominated monetary liability positions.

Provision for Income Taxes

Provision for income taxes increased from \$9.6 million in 2000 to \$14.2 million in 2001. These provisions comprised a current income tax charge of \$12.0 million for 2001 and \$9.7 million for 2000, and a deferred tax charge of \$2.2 million for 2001 and a benefit of \$0.1 million for 2000. Deferred tax benefits and charges arise on temporary differences between the basis of computing income under Russian accounting principles and U.S. GAAP.

In 2001 our effective income tax rate was 28.4% compared to the Russian statutory income tax rate of 35.0%. The difference was primarily due to tax benefits for small enterprises and baby food products and investment and social infrastructure maintenance credits, non-deductible expenses for Russian statutory taxation purposes, change in valuation allowance for deferred tax asset, recognition of a deferred tax liability resulting from the tax effect of our investment programs in LMK and TsMK. See "—Acquisitions" and Note 19 to our Consolidated and Combined Financial Statements as of December

31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000. In 2000 our effective income tax rate was 29.7% compared to the Russian statutory income tax rate of 30.0%. The difference was primarily due to non-deductible expenses for Russian statutory taxation purposes and tax benefits for small enterprises and baby food products and investment and social infrastructure maintenance credits. With effect from January 1, 2001 the income tax rate increased from 30% to 35%. We did not experience any significant adverse effects on our liquidity position as a result of the change in the income tax rate because of our positive operating cash flows and our ability to offset income tax liabilities with VAT receivable.

In 2001 and 2000, we benefited from the small enterprise tax legislation, which was used in the companies operating in the juice segment. See " —Year Ended December 31, 2002 Compared to Year Ended December 31, 2001."

Minority Interest

The minority interests in the Consolidated and Combined Statement of Operations reflect the net income and losses of our subsidiaries that are attributable to the minority shareholders in those subsidiaries. In 2001 and 2000, net profits on continuing operations attributable to minority shareholders of our subsidiaries were \$4.0 million and \$1.5 million, respectively.

Prior to July 2001, the Moscow City Government owned 15% of the shares of the LMK and TsMK. In May 2000, we signed share purchase agreements with the Moscow City Government for the purchase of 15% of the shares of LMK and TsMK. TsMK agreed to purchase 15% of the LMK shares for \$0.9 million and to invest \$8.2 million of plant and equipment. LMK agreed to purchase 15% of the TsMK shares for \$0.2 million and to invest \$5.5 million in plant and equipment. By December 31, 2000 the purchase consideration had been paid, and by May 31, 2001 all the investments had been made. However, due to statutory procedural reasons, the transfer of share ownership did not occur until July 2001. As a result, an advance of \$1.1 million was recognized for the cash which had been paid at December 31, 2000, and the Moscow City Government's 15% ownership in LMK and TsMK were treated as minority interests until July 2001 on the basis that transfer of ownership had not yet occurred.

Net Income

Net income from continuing operations for 2001 was \$31.7 million (4.7% of sales) compared with \$21.2 million (4.6% of sales), for 2000. Our net profit (before corporate and common expenses, deferred tax and minority interest) for the dairy segment was \$26.8 million (5.5% of sales) in 2001 and \$15.2 million (4.7% of sales) in 2000. Our net profit (before corporate and common expenses, deferred tax and minority interest) in the juice segment was \$28.3 million (15.0% of sales) in 2001 and \$17.7 million (12.6% of sales) in 2000. Our common and corporate costs, including depreciation, legal, audit fees and other consulting fees, head office maintenance expenses, expenses on global marketing researches, charity and holding company personnel expenses in 2001 and 2000 were \$17.2 million and \$10.3 million, respectively, which reflects the additional costs associated with the establishment and operation of WBD Foods OJSC.

B. Liquidity and Capital Resources

Working Capital

As at December 31, 2002 our cash and cash equivalents balance was \$29.3 million and our working capital balance was \$55.3 million. Working capital increased in 2002 from a negative balance of \$23.6 million in 2001 mainly due to the increase in cash and cash equivalents, trade accounts receivable, taxes receivable and a decrease in trade accounts payable. The increase in cash and cash equivalents from

\$6.9 million in 2001 to \$29.3 million in 2002 primarily represents the unused balance of our IPO proceeds.

Trade accounts receivable increased to \$60.1 million in 2002 from \$25.3 million in 2001. This was due to an increase in the average number of days for payment of trade receivables, driven in part by the improved credit-worthiness of our customers and changes in market practice, as well as a greater seasonal increase in juice sales in 2002 as compared to 2001. Average trade receivables increased to 10-19 days, for the reasons discussed above, in 2002 compared to 6-10 days in 2001. Based on our assessment of collectibility, bad debt allowance was increased to 4.4% of debtors compared to 2.2% in 2001. See "Item 3. Key Information—D. Risk Factors—Risks Relating to our Financial Condition."

Taxes receivable represents VAT (value added tax) due from the state budget. The increase to \$68.4 million at December 31, 2002 from \$34.9 million at December 31, 2001 was primarily due to the following: (1) the overall increase in sales: we charge customers 10% VAT on most of our dairy and juice products, whereas the VAT that we are charged on most of our purchases is 20%; (2) significant purchases of property, plant and equipment, the VAT on which can only be offset against VAT payable when the assets have been put into operation: we had \$95.8 million of construction-in-progress at December 31, 2002 compared to \$36.9 million at December 31, 2001. Under existing tax legislation we are able to offset this VAT against income taxes and other taxes payable to the state, which for the years ended December 31, 2002 and 2001 amounted to \$4.0 million and \$4.8 million, respectively and to recover from the state budget. We intend to take all legally available steps, including filing litigation claims, to facilitate the recovery of taxes receivable from the state budget. See "Item 3. Key Information—D. Risk Factors—Risks Relating to our Financial Condition".

Inventory in both our dairy and juice segments primarily consisted of raw materials and finished goods. Turnover of inventory in days as of December 31, 2002 amounted to 55 days, as compared to 54 days as of December 31, 2001. The relatively high number of days in inventory is a reflection of our wide product range. We believe inventory is well controlled and appropriately managed as reflected by our minimal need for reserves for damaged or out-of-date product.

Trade accounts payable decreased to \$40.1 million at December 31, 2002 from \$48.6 million at December 31, 2001. This is a reflection of tighter payment terms applied to apple concentrate supplies due to the low harvest in 2002, and a year-end payment to Tetra Pak, our major supplier of packaging materials, in the amount of \$29.2 million, based on our contractual arrangements. Trade payables averaged 30 days as of December 31, 2002 and 36 days as of December 31, 2001.

Cash Flows

A summary of our cash flows from continuing operations were as follows:

	Year ended December 31,		
	2002	2001	2000
	(in thousands)		
Cash flows (used in) provided by operating activities	(6,863)	12,591	16,771
Cash flows used in investing activities—cash paid for the acquisition of subsidiaries	(39,571)	(8,855)	(4,361)
Cash flows used in investing activities—cash paid for the acquisition of property, plant and equipment	(78,505)	(45,417)	(17,551)
Cash provided by financing activities	152,600	44,613	21,581

In 2002, the major sources of our liquidity were our initial public offering proceeds of \$162.1 million and bank loans. Net cash used in operating activities in 2002 was \$6.9 million, compared with a \$12.6 million net cash inflow in 2001. The negative cash flows in 2002 are primarily attributed to an

increase in accounts receivable (\$34.9 million), taxes receivable (\$32.9 million) and a decrease in trade accounts payable (\$13.3 million).

We spent \$122.7 million on our investment activities in 2002, including acquisitions of property, plant and equipment of \$78.5 million, acquisitions of subsidiaries of \$39.6 million, investments in direct financing leases of \$1.8 million and other investment activities of \$2.8 million.

Proceeds from the initial public offering were primarily used to finance our investment activities and repay loans bearing the highest interest rates.

In 2001, net cash provided by operating activities was \$12.6 million, a decrease of 24.9% over 2000. This decrease is primarily attributable to increases in our inventories (\$30.3 million), trade accounts receivable (\$14.1 million), as well as taxes receivable (\$13.9 million). These changes were due to the overall increase in our business.

In 2001, we spent \$8.9 million on the acquisition of subsidiaries, which was double that of 2000. The acquisitions were made in different regions of Russia and in the Ukraine.

Following our expansion strategy, we continued to purchase property, plant and equipment during 2001 in order to increase production facilities in our new and existing subsidiaries. As a result, we acquired 2.6 times more equipment in 2001 than in 2000 in anticipation of the expected positive development of the macroeconomic situation in Russia.

In 2001, our main sources of financing for the acquisition of subsidiaries and acquisition of property, plant and equipment were short- and long-term debt which increased by \$54.3 million as at December 31, 2001 over December 31, 2000 level. Net cash provided by financing activities in 2001 was \$44.6 million, which primarily reflects the increase in short- and long-term loans and \$16.8 million of bonds issued in November 2001.

In 2000, net cash provided by operating activities of continuing operations was \$16.8 million, which is primarily attributable to an increase in both net income and trade accounts payable offset by a rise in inventories and accounts receivable. Net cash used in investing activities of continuing operations was \$27.8 million, which primarily related to investments in property, plant and equipment and acquisitions of subsidiaries. Net cash provided by financing activities was \$21.6 million, which primarily reflects the increase in short- and long-term debt and pay-out of dividends.

Currently, cash transfers between us and our subsidiaries and between our subsidiaries are mainly comprised of intercompany loans, repayment of principal and interest on intercompany loans, investments in share capital and dividend distributions. Dividends may be declared on an annual basis based on a recommendation by the board of directors approved at shareholders meeting. Dividends must be paid out of net earnings and may not exceed undistributed net profit determined under Russian statutory accounting principals.

Debt

In 2002, we continued to adhere to our core financial policies aimed at minimizing borrowing costs and reducing financial risks through:

- Diversification of the debt portfolio by currency, maturity, and loan type in order to reduce interest rate, liquidity and exchange rate risks.
- Diversification of cash flows among several core relationship banks in order not to become dependent on a single liquidity provider.
- Development of a multifaceted relationship with banks to take advantage of packaged service discounts.

Principal sources of liquidity

Our short-term demands for liquidity, including seasonal fluctuations in working capital requirements, are met by cash flows from operations and borrowings under short-term credit facilities. We also rely on long-term borrowings and domestic and international securities offerings to finance capital expenditures and acquisitions. We expect to finance future liquidity needs through cash flows from operations and additional external indebtedness. The availability of external financing is influenced by many factors, including our financial position and market conditions. Under certain circumstances, we may be required to repay certain short-term and long-term indebtedness. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Financial Condition—Covenants in our debt agreements restrict our ability to borrow and invest, which could impair our ability to expand or finance our future operations".

Short-Term and Long-Term Loans

Short-term and long-term loans as at December 31, 2002 amounted to \$101.1 million, which represents a 3.9% decrease over December 31, 2001. Our short-term loans as at December 31, 2002 and 2001 are summarized in the following table:

	Weighted average interest rate as at December 31, 2002	At December 31,	
		2002	2001
(in thousands)			
Bank of Moscow	16.5%	\$ 27,491	\$ —
Sberbank	16.0%	23,049	34,866
Moscow Business World Bank	16.3%	14,133	6,966
International Moscow Bank	10.5%	8,146	—
Vneshtorgbank	18.0%	6,292	9,481
Citibank (Ukraine)	21.4%	3,684	—
Commerzbank	6.6%	3,098	3,000
Moscow City Government	7.4%	2,887	10,596
Alfa Bank	17.0%	1,573	13,033
Citibank T/O	19.5%	692	2,986
Rosdorbank	—	—	6,470
Other	21.0%	3,005	4,530
		<u>\$ 94,050</u>	<u>\$ 91,928</u>

The above loans can be categorized in the following currencies:

	At December 31,	
	2002	2001
(in thousands)		
Russian rubles	\$ 81,524	\$ 67,494
U.S. dollars	8,000	22,137
Euro	98	854
Other currencies	4,428	1,443
	<u>\$ 94,050</u>	<u>\$ 91,928</u>

Our long-term loans position as at December 31, 2002 and 2001 is summarized in the following table:

	Weighted average interest rate as at December 31, 2002	At December 31,	
		2002	2001
(in thousands)			
ING Bank (Eurasia)	3.7%	\$ 5,190	\$ 4,154
Aval	13.0%	520	1,259
Raiffeisenbank	4.4%	477	1,105
Alfa Bank	—	—	3,980
Moscow Industrial Bank	—	—	1,121
Other	8.9%	842	1,643
		<u>\$ 7,029</u>	<u>\$ 13,262</u>

The above loans can be categorized in the following currencies:

	At December 31,	
	2002	2001
(in thousands)		
U.S. dollars	\$ 3,958	\$ 6,389
Euro	2,745	3,978
Russian rubles	326	1,636
Other currencies	—	1,259
	<u>\$ 7,029</u>	<u>\$ 13,262</u>

Our overall loan level decreased by \$4.1 million as of December 31, 2002 compared with December 31, 2001 as a result of an increase in our own financial resources. As of December 31, 2002 we had total committed but unused borrowing of \$5.0 million under short-term facilities and \$3.2 million under long-term facilities. Our principal lenders are as follows:

BANK OF MOSCOW—we had five ruble-denominated short-term loans and lines of credit with the Bank of Moscow as of December 31, 2002, amounting to \$27.5 million. These loans are primarily utilized for working capital purposes. The average interest rate on these loans is 16.5%. These borrowings are secured with property, plant and equipment and inventory.

SBERBANK—we had eleven ruble-denominated short-term loans and lines of credit with Sberbank as of December 31, 2002, amounting to \$23.0 million. These loans are primarily utilized for working capital purposes and for the purchase of raw materials and plants and equipment. The average interest rate on these loans is 16.0%, and most of these loans are secured with property, plant and equipment and inventory.

MOSCOW BUSINESS WORLD BANK ("MDM Bank")—we had five ruble-denominated short-term loans with MDM Bank as of December 31, 2002, amounting to \$14.1 million. These loans are primarily utilized for the financing of working capital. The average interest rate on these loans is 16.3%. These loans are unsecured.

INTERNATIONAL MOSCOW BANK ("IMB")—we had one U.S. dollar-denominated short-term loan and one ruble-denominated short-term loan with IMB as of December 31, 2002, amounting to \$5.0 million and \$3.1 million, respectively. These loans are primarily utilized for working capital purposes and for the purchase of plant and equipment. The interest rates are LIBOR plus 5.4% on the U.S. dollar-denominated loan, and 16.5% on the ruble-denominated loan. These loans are secured with property, plant and equipment and inventory.

VNESHTORGBANK—we had one ruble-denominated short-term line of credit with Vneshtorgbank as of December 31, 2002, which is utilized for working capital purposes. The interest rate is 18%, and this line of credit is secured with plant and equipment for \$6.3 million.

COMMERZBANK—we had one U.S. dollar-denominated short-term line of credit, one euro-denominated short-term loan, and one euro-denominated long-term line of credit, amounting to \$3.0 million, \$0.1 million and \$0.3 million, respectively, as of December 31, 2002. The interest rates are one-month LIBOR plus 5.25%, one-month EURIBOR plus 3.5%, and one-month EURIBOR plus 2.0%, respectively. These borrowings are primarily used for the purchase of plant and equipment. These borrowings are unsecured.

MOSCOW CITY GOVERNMENT ("MCG")—we had three MCG loans amounting to \$2.9 million as of December 31, 2002. These loans are provided by the MCG as we produce milk, which is regarded by the MCG as a vital product. As a result, these loans have a favorable interest rate equal to one third of the Central Bank of Russia's rate, which was 21.0% at December 31, 2002. These loans are seasonal, as they are used to finance our dry milk production during July to September of each year. Some of these loans are guaranteed by Sberbank.

CITIBANK (UKRAINE)—we had one line of credit and two Ukrainian grivna-denominated loans, amounting to \$0.3 million and \$3.4 million, respectively, as of December 31, 2002. These borrowings are used for working capital purposes. The interest rates are 16.0% on the line of credit and 22.0% on the loans. The borrowings are secured with property, plant and equipment and inventory, and are guaranteed by ZAO KB Citibank (Moscow).

ALFA BANK—we had one short-term ruble-denominated line of credit amounting to \$1.6 million as of December 31, 2002, which is used for working capital purposes. The interest rate is 17.0%. This line of credit is unsecured.

Bonds

On November 1, 2001, our subsidiary LMK issued unsecured ruble-denominated bonds amounting to 500,000,000 rubles (\$15.7 million at the December 31, 2002 exchange rate). The bonds are unconditionally guaranteed by WBD Foods and mature 1,093 days from November 1, 2001. Interest is payable every three months until maturity. The interest rate is recalculated every quarter using formulas based on market rates and Central Bank of Russia refinancing rates. For the first quarter, the interest was fixed at 22.75%. For the period from November 1, 2002 to January 31, 2003 the interest rate was 18.0%. LMK is obliged to redeem a bond if its holder notifies LMK of its intention to redeem the bond between October 10, 2003 and October 24, 2003.

During 2001 and 2002, our subsidiary Bishkeksut issued unsecured Kyrgyz som-denominated bonds amounting to 40,000,000 Kyrgyz soms (\$0.4 million at the December 31, 2002 exchange rate). For the first year, interest was fixed at 30.0%; for the period from December 1, 2002 to December 1, 2003 the interest rate is 18.0%.

On April 15, 2003, we issued ruble-denominated bonds on the Moscow Interbank Currency Exchange amounting to 1.5 billion rubles (\$48 million at the April 15, 2003 exchange rate) to Russian institutional investors, guaranteed by Vitafrukt, one of our juice subsidiaries. The bonds mature on April 11, 2006. Interest is payable semi-annually. For the first coupon payment, interest is fixed at 12.9%, and subsequent interest payments will be indexed to the inflation rate. The bondholders have the right to demand prepayment in the event of payment defaults in relation to debt in excess of \$10 million or if certain financial tests are not met.

On May 21, 2003 we completed a US\$150 million Eurobond Regulation S/144A transaction. The transaction is structured as loan participation notes issued by UBS (Luxembourg) S.A. for the sole purpose of funding a loan to us pursuant to a Loan Agreement guaranteed by our subsidiaries Lianozovo Dairy Plant, Tsaritsino Dairy Plant and Trade Company Wimm-Bill-Dann pursuant to a guarantee. The notes were issued at par and mature on May 21, 2008. Interest is payable semi-annually at 8.50%. The notes are listed on the London Stock Exchange. The net proceeds we received from the

loan were \$147.9 million. We intend to use approximately U.S. \$100 million of the aggregate proceeds of the loan and the April 2003 ruble-denominated bond to fund capital expenditures and approximately U.S. \$95 million to refinance certain existing short-term indebtedness.

Capital Expenditures

Our total capital expenditures in 2002, excluding acquisitions, amounted to \$136.1 million including \$78.5 million of cash expenditures, \$56.8 million of vendor credits and \$0.8 million of capital government grants. Capital expenditures in our dairy segment amounted to \$99.7 million and related to the installation of yogurt, soft cheese, dairy dessert and other production lines, the installation of bottling lines and the reconstruction of acquired production facilities. Capital expenditures in our juice segment amounted to \$26.5 million and related to the installation of new production lines, the conversion of the Ramensky plant from a dairy to a juice production facility and the modernization of warehouse facilities acquired. Capital expenditures in our water segment amounted to \$5.6 million and related to the construction of the water plant at Okulovka in the Novgorod region and the installation of bottle blowing and water bottling lines. Our corporate and common capital expenditures, including those relating to the completion of the construction of our office building, totaled \$4.3 million. Common capital expenditures refer to assets used in the production of juice and milk.

Our capital expenditures, excluding acquisitions, for the period from 2000 to 2002 are set forth in the following table:

	Year ended December 31,			Total
	2000	2001	2002	
	(in millions)			
Dairy segment	\$ 20.1	\$ 30.8	\$ 99.7	\$ 150.6
Juice segment	2.2	9.8	26.5	38.5
Water segment	1.5	0.1	5.6	7.2
Corporate and common expenditures	1.6	17.0	4.3	22.9
Total capital expenditures	\$ 25.4	\$ 57.7	\$ 136.1	\$ 219.2

Our estimated capital expenditures, excluding acquisitions, for the period from 2003 to 2005 are set forth in the following table:

	Year ended December 31,		Total
	2003	2004-2005	
	(in millions)		
Dairy segment	\$ 81.0	\$ 232.9	\$ 313.9
Juice segment	60.4	94.2	154.6
Water segment	6.6	12.0	18.6
Corporate and common expenditures	6.5	10.0	16.5
Total capital expenditures	\$ 154.5	\$ 349.1	\$ 503.6

Our estimated future capital expenditures are forward-looking statements and actual capital expenditures may differ materially from those described above. See "Cautionary Statement Regarding Forward-Looking Statements." We intend to finance our capital expenditures through cash inflows from operating activities and external sources of finance, including a portion of the aggregate proceeds from our May 2003 Eurobond-related loan and our April 2003 ruble-denominated bond. See also "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry."

Acquisitions of Subsidiaries

During 2002, 2001 and 2000 we made a number of acquisitions for a total consideration of \$39.6 million, \$15.0 million and \$4.4 million, respectively, with the goal of entering into new markets and strengthening our operational presence in the regions of Russia, Ukraine and Kyrgyzstan:

	<u>Direct ownership interest acquired, %</u>	<u>Cash cost of investment</u> (in thousands)
2002		
Roska	100	\$ 11,634
Ruselectrocenter (Tomilino)	100	6,000
Kharkovsky Dairy Plant	82	5,136
ZDMP—minority interest	25	5,000
Depsona	95	3,458
Novokuibyshevsk Moloko	87	2,900
Burynsky Dairy Powder Factory	76	1,723
Tujmazinsky Molokozavod	85	1,552
Veidelevsky Factory	100	335
Gulkevichsky Butter Factory	52	297
Other	various	1,536
Total 2002		\$ 39,571
2001		
KMMZ	60	\$ 3,986
Ufamolagroprom	50	5,500
TsMK—minority interest(1)	10	1,156
Anninskoye Moloko	100	1,050
Rubtsovsky Dairy	100	1,040
LMK—minority interest	15	900
TsMK—minority interest	15	190
TsMK—minority interest(1)	5	500
Other	various	690
Total 2001		\$ 15,012
2000		
Bishkeksut	67	\$ 453
Molochny Kombinat—"MK"—minority interest	57	3,775
Other	various	133
Total 2000(2)		\$ 4,361

Notes:

- (1) This amount represents a partial cash payment in respect of 9.6% of the outstanding common stock of TsMK. The remaining consideration was a share of participation in WBD Foods LLC, which was subsequently exchanged for 448,000 shares of WBD Foods OJSC at a value of \$18 per share, the estimated market value per share of WBD Foods OJSC in April 2001. See also Consolidated and Combined Financial Statements as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000.
- (2) This total excludes the acquisition of the Breweries which were treated as discontinued operations.

Below is a description of the major acquisitions, both acquisitions of minority interests and acquisitions of new companies.

In July 2002, we acquired a 100% interest in Roska, a St. Petersburg dairy company, for \$11.6 million. The results of Roska's operations have been included in our Consolidated and Combined Financial Statements from July 31, 2002. Through this major acquisition, we established our dairy production capacity in the North-West region of Russia.

In October 2002, we acquired a 100% interest in Ruselectrocenter (Tomilino) for \$6.0 million. The results of Ruselectrocenter's operations have been included in our Consolidated and Combined Financial Statements from October 31, 2002. The acquisition of this logistics base in the Moscow region will provide us with a key warehousing and distribution center for Moscow and the Moscow region.

In October 2002, we acquired 95.4% of Depsona for \$3.5 million. The results of Depsona's operations have been included in our Consolidated and Combined Financial Statements from October 1, 2002. This acquisition will give us a key additional source of domestic concentrates, reducing our exposure to volatility in the global market for juice concentrates.

We increased our presence in Ukraine with the acquisition of 82.3% of the Kharkovsky Dairy Plant in June 2002 for \$5.1 million, and with the acquisition of 76.0% of the Burynsky Dairy Powder Factory in the Sumy region, Northern Ukraine in November 2002 for \$1.7 million, to ensure a supply of quality raw powdered milk for Ukrainian production. The results of Kharkovsky Dairy Plant's operations have been included in our Consolidated and Combined Financial Statements from July 1, 2002 and the results of the Burynsky Dairy Powder Factory's operations have been included in our Consolidated and Combined Financial Statements from December 1, 2002.

We also increased our ownership in the Moscow Baby Food Plant (ZDMP) to 77.3% in June 2002 through the acquisition of an additional 25.1% from one of its shareholders for \$5.0 million.

Other key 2002 acquisitions include: the acquisition of a controlling stake in Novokuibyshevskmoloko in the Samara region, Central Russia, specializing in dry fat-free milk, dairy products and fermented milk products, and Tujmazinsky Molokozavod in the Republic of Bashkortostan, Western Siberia, providing a local supply of quality raw powdered milk in the Siberian region. The results of Novokuibyshevskmoloko's operations have been included in our Consolidated and Combined Financial Statements from June 30, 2002 and the results of Tujmazinsky Molokozavod operations will be included in our Consolidated and Combined Financial Statements from January 1, 2003.

In April 2001, at the same time as WBD Foods LLC acquired an interest in LMK and Rodnik in exchange for shares of participation in WBD Foods LLC, an additional share of participation in WBD Foods LLC was exchanged for additional shares in TsMK. That exchange was accounted for as the acquisition of a minority interest in 2001.

In July 2001 WBD Foods received the ownership for 15% of shares of LMK and TsMK acquired from the Moscow City Government. TsMK purchased 15% of LMK's shares for \$0.9 million and invested \$8.2 million of plant and equipment. LMK purchased 15% of TsMK's shares for \$0.2 million and invested \$5.5 million of plant and equipment. This agreement resulted from the Moscow City Government's desire to sell its remaining interests in these entities and the importance of these entities to our business. This acquisition was accounted for as the acquisition of minority interests in 2001.

In March 2001, LMK acquired 60% of the outstanding common stock of Kiev Dairy No. 3 ("KMMZ"), one of the major dairy plants in Ukraine. The cost of acquisition was \$4.0 million, which was paid in April 2000 to Alfa Bank in its role as agent broker for the acquisition of KMMZ. The ownership of these shares was not transferred to LMK until March 2001, as it was conditional on

receiving Central Bank of Russia approval. The results of KMMZ have been consolidated from March 2001.

In March 2001, LMK acquired 50.1% of the outstanding common stock of Ufamolagroprom, a leading dairy in Bashkortostan. The cost of acquisition was \$5.5 million, which was paid in cash. The results of Ufamolagroprom have been consolidated from January 2001.

In June 2001, we also acquired a 100% interest in Rubtsovsky Dairy and in August 2001, we acquired a 100% interest in Dairy Anninskoye Moloko. The cost of both acquisitions was \$1 million each. The results of Rubtsovsky Dairy and Dairy Anninskoye Moloko have been consolidated from July 2001.

In December 2000, LMK acquired a further 57% of the outstanding common stock of MK (40% was acquired in September 1999 and accounted for at cost), a major milk producing plant in Timashevsk, Krasnodar region of Russia. The cost of acquisition was \$6.5 million which was paid in cash (\$2.7 million was paid in 1999, \$3.8 million—in 2000). The results of MK have been consolidated from December 2000.

See "Item 4. Information on Our Company—B. Business Overview—Business Strategy" for more information on our expansion strategy and Note 4 to our Consolidated and Combined Financial Statements included elsewhere in this document.

Contractual Obligations and Commercial Commitments

In the ordinary course of business, our primary contractual obligations regarding cash involve debt service, including bank loans, bonds, and vendors equipment financing obligations.

The table below summarizes our obligations and commitments to make future payments under long-term contracts, such as debt and vendors financing agreements.

Contractual Obligations	Payments due by periods At December 31, 2002				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
			(in thousands)		
Unconditional purchase obligations	\$ 4,864	\$ 1,213	\$ 2,046	\$ 1,460	\$ 145
Vendor financing obligations	68,864	14,384	26,229	19,098	9,153
Other long-term obligations	697	130	567	—	—
Bonds payable	16,096	16,096	—	—	—
Long-term loans	7,029	2,483	3,554	992	—
Total contractual cash obligations	\$ 97,550	\$ 34,306	\$ 32,396	\$ 21,550	\$ 9,298

We do not have any contingent commitments as at December 31, 2002.

Environmental and Product Liability

We are subject to the requirements of environmental laws and regulations. While we devote resources designed to maintain compliance with these requirements, there can be no assurance that we operate at all times in complete compliance with all such requirements. We could be subject to potentially significant fines and penalties for any noncompliance that may occur. Although we have made and will continue to make capital and other expenditures to comply with environmental requirements, in 2002 we did not incur, and in 2003 we do not expect to incur, material capital expenditures for environmental controls. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Failure to comply with existing governmental regulations, or increased governmental regulation of our operations, could result in substantial additional compliance

costs or administrative penalties which would adversely affect our financial results and could reduce our ability to maintain or increase production."

We also face an inherent business risk of exposure to product liability claims in the event that consumption of our products results in personal illness or death, and there can be no assurance that we will not experience any material product liability losses in the future. In addition, if any of the products we have produced are determined to be unsuitable for consumption, we may be required to participate in a recall involving such products. We have not had any significant historical experience of such claims and are unaware of any potential unasserted claims. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Failure to comply with existing governmental regulations, or increased governmental regulation of our operations, could result in substantial additional compliance costs or administrative penalties which would adversely affect our financial results and could reduce our ability to maintain or increase production" and "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Independent distributors may export our products to countries where such products do not meet the requirements of applicable legislation. The consequent recalls of our products and the associated publicity may negatively impact our reputation in the Russian Federation, CIS and abroad, and adversely affect our results of operations."

Critical Accounting Policies and Estimates

Critical accounting policies are those policies that require the application of management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments that are sufficiently sensitive to give materially different results under different assumptions and conditions. We believe that our most critical accounting policies are those described below. For a detailed discussion of these and other accounting policies, see Note 3 to our Consolidated and Combined Financial Statements as of December 31, 2002 and 2001 and for the years then ended included elsewhere herein.

Estimates and assumptions

The preparation of our financial statements in accordance with U.S. GAAP required our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and of revenues and expenses during the reporting period. Management reviews all significant estimates affecting the financial statements on a recurring basis and records the effect of any adjustments as necessary.

Allowance for Doubtful Accounts

Our allowance for doubtful accounts reflects provisions for customers receivables to reduce receivables to amounts expected to be collected. We use significant judgment in estimating uncollectible amounts. In estimating uncollectible amounts, we consider factors such as current overall economic conditions, industry-specific economic conditions, historical customer performance and anticipated customer performance. While we believe our processes effectively address our exposure for doubtful accounts, changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in our Consolidated and Combined Financial Statements.

Inventory Valuation

We review our inventory balances to determine if inventories can be sold at amounts equal to or greater than their carrying amounts. The review includes identification of slow moving inventories, obsolete inventories, expired inventories and discontinued products or lines of products. The identification process includes historical performance of the inventory, current operational plans for the

inventory, as well as industry and customer specific trends. Obsolete items are provided or written off. If our actual results differ from our expectations with respect to the selling of our inventories at amounts equal to or greater than their carrying amounts, we would be required to adjust our inventories accordingly.

Depreciation periods for property, plant and equipment

Depreciation periods of property, plant and equipment are based on estimated useful lives of related assets. The adoption of depreciation periods requires judgment in determining appropriate estimated useful lives over which the related assets will be utilized. In estimating useful lives, we consider factors such as our historical experience and the industry, manufacturers' estimates, anticipated use and our maintenance policies. As these factors change, management estimates may change and we could be required to reassess depreciation periods for property, plant and equipment and consider impairment.

Recent Accounting Pronouncements

During 2001, the Financial Accounting Standards Board ("FASB") issued several new accounting standards, including SFAS No. 141, "Business Combinations", SFAS No. 142, "Goodwill and Other Intangible Assets", SFAS No. 143, "Accounting for Asset Retirement Obligations" and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".

In June 2001, the FASB issued SFAS No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets", effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests in accordance with SFAS No. 142. Other intangible assets continue to be amortized over their useful lives. Impairment losses that arise due to the initial application of this standard are reported as a cumulative effect of a change in accounting principle. We adopted SFAS No. 141, "Business Combinations" which was effective for business combinations consummated after June 30, 2001. We adopted SFAS No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002 and discontinued amortization of goodwill as of such date.

We completed the transitional impairment test for existing goodwill as of January 1, 2002 during the second quarter of 2002. Based on a comparison of the carrying amounts of our reporting units with the fair values of the reporting units, we determined that no goodwill was impaired as of that date. Fair values of the reporting units were established using the discounted cash flow method.

The adoption on January 1, 2002 of the above mentioned standards did not have a material impact on our financial position or results of operations.

Accounting Pronouncements Issued But Not Yet Adopted

During 2002, the FASB issued several new accounting standards, including SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Corrections", SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". In November 2002, the FASB also issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". These standards are not expected to have a material impact on our financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 replaces EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)", and changes the timing of recognition for certain exit costs associated with restructuring activities. Under SFAS No. 146, certain exit costs would be recognized over the period in

which the restructuring activities occur. Currently, exit costs are recognized when we commit to a restructuring plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002, though early adoption is allowed. We will adopt SFAS 146 for exit or disposal activities that are initiated after December 31, 2002. The provisions of SFAS No. 146 could result in our recognizing the cost of future restructuring activities over a period of time as opposed to as a one-time expense.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of FIN 45 are effective for financial statements of annual periods that end after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002.

Employee Stock Option Plans

On August 30, 2002, our Board of Directors authorized management to develop a stock option plan for our officers and key employees. On January 31, 2003, an issue of 1.35 million additional shares was approved by the shareholders meeting to fund this stock option plan. The Board of Directors is currently formulating the terms and conditions of the plan.

Litigation

For a description of current claims see "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—7. Litigation."

Recent Developments

For a description of significant developments since December 31, 2002, see "Item 8. Financial Information—B. Significant Changes." For a description of material contracts we have entered into since December 31, 2002, see "Item 10. Additional Information—C. Material Contracts."

C. Research and Development, Patents and Licenses, Etc.

We invest significant financial and human resources in new product development, focusing on long-term strategic development projects that are expected to create innovative products and technologies. Our product development department located at the Lianozovo Dairy Plant in Moscow had 21 employees as of December 31, 2002. It often cooperates with third parties such as Russian research institutions, specialized research firms and suppliers. In 1999 and 2000, we spent approximately \$1.4 million to establish a department focused on new product development. In 2001, we spent approximately \$1.3 million on activities associated with new product development, including \$0.5 million directly on new product development and \$0.8 million on the development of our own research center. During 2002, we spent approximately \$0.9 million on new product development. For a more detailed discussion of new product development see "Item 4. Information on Our Company—B. Business Overview—New Product Development."

D. Trend Information

Dairy Segment

In 2002, we witnessed an increase in the total supply of raw milk, which resulted in lower prices as compared to 2001. In 2003, we expect raw milk prices to remain stable in ruble terms and to increase

in U.S. dollar terms due to the expected continued appreciation of the ruble against the dollar in real terms.

In 2002, average prices for our products were higher compared with average prices in 2001 due to an increase in the share of high value-added products in our dairy segment product portfolio. We expect this trend to continue in 2003.

Juice segment

In 2002, we witnessed price increase in juice concentrate and other ingredients and we expect this trend to continue in 2003 resulting in part from bad harvests and poor weather conditions in juice-concentrate producing regions. We do not expect this increase to be dramatic in 2003. However, prices may be influenced by weather conditions and the harvest.

In 2002, average selling prices in our juice segment decreased as compared to 2001 due to significant price competition and the increased share of lower-price, lower-quality brands in our juice product portfolio as we expanded into the lower-income regions. We believe that average selling prices in the regions will generally continue to be lower than average selling prices in Moscow and St. Petersburg due to the difference in the product portfolio and consumer preferences in the regions. At the same time, however, we believe that rising household incomes in Russia and the increasing preference for juice over fresh fruits, which generally accompanies increased incomes, will encourage the consumption of vitamin-rich, value-added products with different tastes and nutritional characteristics.

Selling and distribution expenses

Our selling and distribution costs increased in 2002 as compared to 2001, both in absolute terms and as a percentage of sales. In particular, our advertising, personnel and transportation costs increased, in large part as a result of our regional expansion program. Advertising costs were also driven upwards by increases in prices charged by the media. The continuation of these trends, taken together with the continuing competitive pressure on our prices, particularly in our juice business, and the continuing shift in our juice product-mix towards lower-priced products as we continue to expand into the regions, as discussed above, may have a negative impact on our operating income and net income in 2003 as compared to 2002.

Except as discussed elsewhere in this document, we are not aware of any trends, uncertainties, demands and commitments or events that are reasonably likely to have a material effect on our sales, income from operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial conditions. See also "Item 4. Information on Our Company—B. Business Overview—Dairy Products and Brands—Market Trends and Competition" and "Item 4. Information on Our Company—B. Business Overview—Juice Products and Brands—Market Trends and Competition," "Cautionary Statements Regarding Forward-Looking Statements" and "Item 3. Key Information—D. Risk Factors."

Item 6 Directors, Senior Management and Employees

A. Directors and Senior Management

Our directors and executive officers, and their respective ages and positions as of May 10, 2003, were as follows:

Name	Year of Birth	Position
David Iakobachvili	1957	Chairman
Sergei A. Plastinin	1968	Director and Chairman of Management Board
Guy de Selliers	1952	Director
Mikhail V. Dubinin	1969	Director
J.B. Mark Mobius	1936	Director
Michael A. O'Neill	1945	Director
Alexander S. Orlov	1948	Director
Vladimir N. Sherbak	1939	Director
Victor A. Tutelyan	1942	Director
Earnest Linwood Tipton	1934	Director
Evgeny G. Yasin	1934	Director
Vladimir Preobrajensky	1961	Chief Financial Officer, Management Board Member
Maxim Byrdin	1972	Head of Dairy Business Unit, Management Board Member
Dmitri Kolokatov	1973	Head of Juice Business Unit, Management Board Member
Leonid A. Kompaniets	1957	Management Board Member
Mikhail V. Kondyrev	1970	Head of Mineral Water Business Unit, Management Board Member
Dmitri V. Kuprianov	1972	Management Board Member
Pavel A. Smirnov	1972	Management Board Member

Note:

- (1) Party to the Amended and Restated Partnership and Cooperation Agreement. See "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions" and "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—We are controlled by a group of shareholders whose interests could conflict with those of the holders of our ADSs and notes."

David Iakobachvili has served as Chairman of our Board of Directors since June 8, 2001. He also serves as chairman of the board of directors of the following companies: Prospect OJSC, a utility repair and services company, and Metelitz-Club CJSC, an entertainment and restaurant company. In addition, he is a director of Trinity LLC, a technical equipment and services company, and Aeroport Financial Services Limited, an investment company. Mr. Iakobachvili owns 6.4% of our outstanding stock.

Sergei A. Plastinin serves as the Chairman of our Management Board, which is our chief executive officer position. In 1993, he served as General Director of UT Center LLC; from 1994 to 1995 he was General Director of NPP of Juices and Drinks JSC; from 1996 to 1998 he was Deputy Director of PK Lianfruct JSC; from 1996 to 1998 he served as Deputy Director of Production of Foods CJSC; and from 1998 to 1999 he was Deputy Director of Lianozovo Dairy Plant. Since 1996, Mr. Plastinin has acted as Executive Director of PAG Rodnik CJSC. In 1998, Mr. Plastinin has served as Deputy General Director of Production and Trade Group WBD CJSC. In addition, since 1998 Mr. Plastinin has acted

as a consultant to Lianozovo Dairy Plant. All of these companies either currently are or formerly were a part of our group of companies. Mr. Plastinin owns 12.2% of our outstanding stock.

Guy de Selliers received a degree in engineering in 1975 and in economics in 1977 at the University of Lorraine. Currently, Mr. de Selliers acts as Chairman of Leader Capital, a project equity fund. During 1998-2000, he acted as Chairman, Head of Europe, of Fleming Investment Bank. Mr. de Selliers is also a director in Solvay S.A., a global group of pharmaceutical and chemical companies, Norilsk Nickel, and an advisory director to Fortis, an international financial services provider. He was also a Deputy Vice President of EBRD from 1991 to 1997. He acted as Chief Executive Officer of MC.BBL investment bank from 1997 to 1998.

Mikhail Dubinin served as Deputy General Director of ISSA, one of the first companies of our group, from 1992 to 1993. From 1993 to 1994 he was the General Director of UT Center LLC; from 1994 to 1995 he was Executive Director of NPP of Juices and Drinks JSC; from 1995 to 1996 he was President of Trade Company WBD CJSC; from 1996 to 1997 he was consultant at Trade Company WBD CJSC; from 1997 to 1998 he served as Deputy Director (Economic Affairs) of Lianozovo Dairy Plant; from 1998 to 2002 he was Deputy General Director of Production and Trade Group WBD. All of these companies either currently are or formerly were a part of our group of companies. Mr. Dubinin owns 10.2% of our outstanding stock.

J.B. Mark Mobius joined the Templeton organization in 1987 as president of Templeton Emerging Markets Fund Inc. in Hong Kong. Dr. Mobius has spent over thirty years working in Asia and other parts of the emerging markets world. As a result of his experience, in 1999 Dr. Mobius was appointed joint chairman of the World Bank and Organization for Economic Cooperation and Development (OECD) Global Corporate Governance Forum's Investor Responsibility Taskforce. He has been a member of the board of directors of Lukoil since 2002. Dr. Mobius holds Bachelor's and Master's degrees from Boston University, as well as a Ph.D. in economics and political science from the Massachusetts Institute of Technology. Dr. Mobius has studied at the University of Wisconsin, University of New Mexico, and Kyoto University in Japan.

Michael A. O'Neill received a degree in Industrial Engineering from the College of Commerce Rathmines in 1967. He is also a Board member of Efes Brewers International, ZAO Perekriostok and CTEK—Moscow. From 1989 to 1991, Mr. O'Neill was Deputy Region Manager of the Coca-Cola Company. From 1991 to 1997 he was the Region Manager of Eurasia of the Coca-Cola Company. From 1997 to 2000, Mr. O'Neill was the President of Nordic and Northern Eurasia Division of the Coca-Cola Company. In 2000, Mr. O'Neill retired from the Coca-Cola Company and he has acted as consultant to it since then.

Alexander S. Orlov was director of the milk department of Moscow Baby Food Plant from 1992 to 1994; from 1994 to 1997, Mr. Orlov served as General Director of Moscow Baby Food Plant; from 1997 to 1998 he was General Director of Lianozovo Dairy Plant. From May 1998 through December 2002, Mr. Orlov has served as General Director of Production and Trade Group WBD. In addition, Mr. Orlov acts as a consultant to Lianozovo Dairy Plant and as Deputy Chairman (but not a member) of our Management Board. Mr. Orlov graduated from the Moscow Technology Institute of Meat and Milk Industry in 1975. Mr. Orlov owns 6.2% of our outstanding stock.

Vladimir N. Sherbak graduated from Krasnodar Polytechnic Institute in 1966 and from the Academy of Social Science of the Central Committee of the Communist Party in 1982. From 1996 to 1999 Mr. Sherbak was Deputy Minister of Agriculture of the Russian Federation; from 1999 to 2000 he was Deputy Prime Minister of the Russian Federation for Agriculture.

Earnest Linwood Tipton has served on the International Dairy Food Association (IDFA) and its organizations for over 35 years in various posts, culminating with his appointment to President and CEO in 1983. He is a respected resource on agricultural trade policy for Capitol Hill and federal

agencies, and he has served as an advisor under both Republican and Democratic administrations, including his presidential appointment to the National Commission on Agricultural Trade and Export Policy in 1984. Mr. Tipton is a past president and chairman of the board of the National Economists Club and the National Economic Education Foundation. Prior to joining IDFA, he worked as an economist for a milk producers' cooperative and as a dairy economic consultant. Mr. Tipton also served as an officer in the U.S. Army Finance Corp. and holds Bachelor's and Master's degrees from the University of Missouri.

Victor A. Tutelyan graduated from the Moscow Medical Institute in 1965. He is an academician of the Russian Academy of Medical Science and has been the chief secretary of its Presidium since 2000. Currently, Mr. Tutelyan is the head of the Institute of Nutrition of the Russian Academy of Medical Science. From 1980 to 2000, Mr. Tutelyan was the Deputy Director of the Institute of Nutrition of the Russian Academy of Medical Science.

Evgeny G. Yasin graduated from the Hydrotechnical Institute in 1957 with a degree in engineering and in 1963 from Moscow State University with a degree in economics. He has been a professor in the High School of Economy of the State University since July 1998. Currently, Mr. Yasin serves as a director of Vostokenergo OJSC. From 2000 to 2002 he served as a director of VimpelCom OJSC. From 1991 to 1994, Mr. Yasin was the Director of Economic Policy for the Russian Society of Manufactures and Entrepreneurs. In 1994, he was the head of the Analytical Center of the Administration of the Russian President. From 1994 to 1998, Mr. Yasin was the Minister of Economy of Russia. In 1998, Mr. Yasin acted as a Minister for the Russian government.

Vladimir Preobrajensky graduated from the Moscow Aviation Institute in 1984. He has also studied at Moscow State University, the London Business School and Harvard University. Mr. Preobrajensky has served as our Chief Financial Officer since July 2002 and is currently a member of our Management Board. From May 1999 until May 2001, he served as the Chief Financial Officer and Vice President for Business Development of Vimpel Communications.

Maxim Byrdin joined the Company in 1993 and served as the Executive Director of Trade Company WBD from 1995 until 1997. Currently, Mr. Byrdin serves as a member of our Management Board and as Head of the Dairy Business Unit. Mr. Byrdin graduated from the State Academy of Management in 1994.

Dmitri Kolokatov served as the Managing Director for Trade Company WBD from 1998 until 2000 and currently serves as a member of our Management Board and as Head of the Juice Business Unit. From 1996 through 1997, Mr. Kolokatov was the marketing manager at GR&T, and from 1995 through 1996 he was the marketing manager at Merloni Electrodomestici. Mr. Kolokatov graduated from the Moscow Aviation Institute in 1996.

Leonid A. Kompaniets served as Head of the Hardware Department from 1982 to 1984, as Production Manager from 1984 through 1986, and as Chief Engineer in 1997 at the Moscow Baby Food Plant. From 1987 to 1994, Mr. Kompaniets served as the Production Manager at the Lianozovo Dairy Plant, and from 1994 to 2001 he served as the Production Director at the Lianozovo Dairy Plant. Since 2001, Mr. Kompaniets has served as Director of Operations at the Lianozovo Dairy Plant. In addition, he is a member of our Management Board. Mr. Kompaniets graduated from the Moscow Technological Institute of the Meat and Dairy Industry in 1979, and from the Moscow Institute of Electronic Mechanical Engineering in 1984.

Mikhail V. Kondyrev joined Trade Company WBD CJSC in 1995 as a sales manager. During 1996 he served as the lead manager of our priority clients department and subsequently as head of this department. In 1997 he served as the head of our new project development department. Since 1998, Mr. Kondyrev has been the head of the strategic development department at the Lianozovo Dairy Plant. He is also currently the head of our Mineral Water Business Unit and a member of our Management Board.

Dmitri V. Kuprianov has served as the Head of the Human Resources Department of the Lianozovo Dairy Plant since September 1998. He is also currently a member of our Management Board. Mr. Kuprianov graduated from Moscow State University in 1998.

Pavel A. Smirnov joined Trade Company Wimm-Bill-Dann in 1997 as an expert analyst. From 1998 to 1999 he served as the Acting Head of the Dairy Product Development Department of the Lianozovo Dairy Plant. Since August 1999, Mr. Smirnov has served as Head of the Marketing Department of our Dairy Business Unit and as a member of our Management Board. Prior to joining us, Mr. Smirnov worked at the Central Research Institute of the Ministry of Defense of the Russian Federation after graduating from the Dzerzhinsky Military Academy in 1995.

Several of our employees are related to members of our Board of Directors or senior management. In particular, Alexander S. Orlov's son works for WIMM-BILL-DANN Germany GmbH; the father of Evgeny L. Yaroslavsky, who is a member of our controlling group of shareholders and on the board of directors of a number of our subsidiaries, is an administrator of one our buildings; the wife of Roman V. Bolotovskiy, our general counsel, is an engineer at Tsaritsino Dairy Plant; and the wife of Victor Y. Yevdokimov, who is a member of the board of directors and management of a number of our subsidiaries, is an engineer at Tsaritsino Dairy Plant.

B. Compensation of Directors and Senior Management

In 2002, the aggregate amount of compensation paid to the directors, executive officers and Management Board members of Wimm-Bill-Dann Foods OJSC as a group for services in all capacities was \$1.9 million. No funds were set aside for pension, retirement and other similar benefits for the same directors and executive officers as of December 31, 2002.

Pursuant to internal guidelines governing the activities of our Board of Directors, each independent director was compensated \$50,000 during 2002 (pro rated for those who served less than a full year) plus all transportation and lodging expenses incurred in connection with board meetings. From 2003, we will compensate each board member \$50,000 annually, plus transportation and lodging expenses incurred in connection with board meeting attendance, and up to \$2,000 per year for other expenses incurred in connection with board-related activities. The Chairman of the Board will be compensated \$300,000 annually plus transportation and lodging expenses incurred in connection with board meeting attendance, and up to \$2,000 per year for other expenses incurred in connection with board-related activities.

C. Board Practices

Board of Directors

Members of our Board of Directors are elected by a majority vote of shareholders at our annual general meeting using a cumulative voting system. Each director is elected for a term that lasts until the next annual general meeting and may be re-elected an unlimited number of times. Our Board of Directors currently consists of eleven members, seven of whom are independent directors. The Board of Directors has the authority to make overall management decisions for the Company, except those matters reserved to the shareholders. See "—General Meetings of Shareholders" for more information regarding the competence of our shareholders' meetings. The members of our Board of Directors, as well as the members of the board of directors of our subsidiaries, do not serve pursuant to a contract, though we plan to conclude such contracts in the near future.

All of our directors were elected on May 31, 2002, and, pursuant to Russian law, their terms will expire on the date of our next annual shareholders' meeting, which will take place between May 1 and June 30, 2003. The business address for all of our officers and directors is 16 Yauzsky Boulevard, Moscow 109028, Russian Federation.

Management Board

The size of our Management Board, which consists of our executive officers, is determined by the Board of Directors and currently consists of 8 members: S. Platinin, V. Preobrajensky, P. Smirnov, M. Byrdin, D. Kolokatov, M. Kondyrev, L. Kompaniets and D. Kuprianov. Members of the Management Board are nominated by the Chairman of the Management Board and confirmed by our Board of Directors for a term of three years. The Management Board is the collective executive body of the Company and, under the direction of the Chairman of the Management Board, is responsible for our day-to-day management.

Chairman of the Management Board

The Board of Directors appoints the Chairman of our Management Board, our chief executive officer, for a term of three years. The rights, obligations and the times and amounts of payment for the Chairman's services are determined pursuant to our Charter and by contract. The Chairman of the Management Board is responsible for day-to-day management of our activities.

Audit Committee

Our Audit Committee was established on April 24, 2003 by a decision of our Board of Directors and functions pursuant to a Charter approved by the Board. It is currently comprised of three independent directors, G. de Selliers, E. Linwood Tipton and V. Sherbak, appointed by the Board of Directors on April 24, 2003. The goals and objectives of the Audit Committee, as set forth in the Charter, are to assist the Board of Directors in carrying out its oversight responsibilities in the areas of :

- our financial statements and the processes of their preparation;
- our internal accounting and financial control system;
- work of the internal audit service and independent auditors;
- qualifications and independence of the independent auditors;
- our compliance with ethical principles; and
- requirements of legislative and normative acts.

According to the Charter, the Audit Committee shall meet, separately from the non-independent directors, at least once during each fiscal quarter and more frequently as the Committee deems desirable.

Disclosure Committee

Our Disclosure Committee was formed on March 24, 2003 by order of the Chairman of our Management Board. It is composed of V. Preobrajensky, R. Bolotovskiy, M. Byrdin, D. Kolokatov, D. Kuprianov, E. Laryushkina and J. Yadegar. Ms. Laryushkina is our Financial Controller and Mr. Yadegar is our Deputy Chief Financial Officer for Investor Relations. The Disclosure Committee functions pursuant to a Charter and meets as determined by the Committee. It is directly supervised by and reports to the Chairman of the Management Board and Chief Financial Officer.

According to its Charter, the Disclosure Committee is tasked with:

- overseeing the gathering, evaluating and reporting of information relating to our disclosure obligations;
- evaluating our system of disclosure controls and procedures; and
- preparing written confirmations relating to our observance of the information disclosure rules and principles.

As set forth in the Charter, the Disclosure Committee is also responsible for all aspects of information disclosure, including ensuring proper documentary execution, transmission, implementation and performance of our rules and principles of information disclosure as well as for coordinating the work of our legal department, external and internal auditors, and our other departments for the purpose of preparation our annual reports and other disclosure documents in accordance applicable law.

Investment and Strategic Planning Committee

Our Investment and Strategic Planning Committee was formed on April 24, 2003 by a decision of our Board of Directors and functions pursuant to bylaws approved by the Board. It is composed of S. Plastinin, M. Dubinin, M. O'Neill and V. Tutelyan. According to its bylaws, the Investments and Strategic Planning Committee is designed to assist the Board of Directors in approving and carrying out its oversight responsibilities in relation to significant investment programs, mergers and acquisitions, and strategic planning.

According to the bylaws, the Investment and Strategic Planning Committee shall meet not less than once during each fiscal quarter.

Personnel and Compensation Committee

Our Personnel and Compensation Committee was formed on April 24, 2003 by a decision of our Board of Directors and functions pursuant to bylaws approved by the Board. It is composed of A. Orlov, E. Yasin and J.B. Mark Mobius. According to the bylaws, the Personnel and Compensation Committee is tasked with assisting in the selection of Board of Directors candidates. Its members also assist the Management Board in formulating and implementing:

- a uniform personnel policy for all of our subsidiaries;
- a personnel appraisal, rotation, dismissal, education and training policy and administrative accounting standards;
- a remuneration and compensation policy, as well as other incentive programs (stock option and pension plans, social programs); and
- a corporate ethics and communications policy.

According to the bylaws, the Personnel and Compensation Committee shall meet not less than once during each fiscal quarter.

Audit Commission (for financial reporting under Russian law)

The Audit Commission verifies the accuracy of our financial reporting under Russian law and generally supervises our financial activity. The members of our Audit Commission are nominated and elected by our shareholders for a term of one year. A Director may not simultaneously be a member of the Audit Commission. Our Audit Commission currently has six members: N. Vasilieva, N. Kolesnikova, E. Gorshechnikova, E. Kuznetsova, N. Romanova and E. Smirnova. Our Audit Commission operates in accordance with terms set forth in specific guidelines.

D. Employees

In 2002, we had an average of 16,243 employees within Russia and the other countries of the CIS, including 8,812 production employees, 4,326 commercial employees and 3,105 administrative employees. We also had 18 employees in the Netherlands, Germany and Israel. We do not employ a significant number of part-time employees. To date, we have experienced a low level of departures, voluntary or otherwise. We have not experienced any work stoppages, and we consider our relations with employees to be strong. Some of our employees are unionized and are employed pursuant to collective labor agreements.

Average for the year ended December 31,	Production and Supply	Marketing and Distribution	General and Administration	Percent Increase over Prior Year
2002	8,812	4,326	3,105	43 %
2001	7,162	1,996	2,177	75 %
2000	4,280	881	1,305	16 %

Our personnel enjoy a relatively high level of social security. We provide subsidies for meals, medical care and summer vacations for employees and their children. Our employees have opportunities to upgrade their qualifications by participating in training sessions and taking courses. Starting in 1998, leading managers of our subsidiaries have been involved in programs to upgrade their professional skills through a program of the Russian government. We seek to maintain effective management teams at our regional subsidiaries by recruiting qualified new employees, transferring existing employees from our Moscow subsidiaries, as well as through customized retraining programs and on-site training in our Moscow subsidiaries. Programs for training local personnel have been or are being developed and implemented at each of our regional plants.

E. Share Ownership

Each ADS is the economic equivalent of one share of our common stock.

The aggregate beneficial interest of our directors, senior management and employees as of December 31, 2002, was as follows:

Number of Shares of common stock	% of common stock outstanding
16,545,471	37.60%

For further description of the individual interest of our directors and senior management, see "Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders."

Item 7 Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth information regarding the beneficial ownership of our common stock as of May 10, 2003, of the following:

- each person known by us to own beneficially any of our outstanding shares;
- all our directors and executive officers; and
- each of our shareholders that are sold shares in our initial public offering.

Name of Beneficial Owner	Number of Shares Owned	Percentage of Shares Outstanding
Sergei A. Plastinin(1)(2)	5,351,421	12.16%
Mikhail V. Dubinin(1)	4,471,421	10.16%
David Iakobachvili(1)	2,818,347	6.41%
Gavril A. Yushvaev	8,272,948	18.80%
United Burlington Investments Ltd.	2,771,264	6.30%
Alexander S. Orlov(1)	2,738,282	6.22%
Mikhail I. Vishnyakov	1,357,798	3.09%
Evgeny L. Yaroslavsky	1,163,163	2.64%
Templeton Strategic Emerging Markets Fund LDC	518,000	1.18%
Viktor E. Evdokimov	264,405	0.60%
Other	1,865,307	4.24%
American Depositary Receipt Holders	12,407,644	28.20%
Total	44,000,000	100.00%

Notes:

- (1) Member of our Board of Directors.
- (2) Member of our Management Board.

As of May 10, 2003, we had 44,000,000 shares of common stock outstanding. The total number of WBD ADSs outstanding was 12,407,644, representing underlying ownership of 28.20% shares, approximately 28.20% of our outstanding share capital. The shares underlying the ADSs are deposited with Deutsche Bank Trust Company Americas and the local custodian is OOO Deutsche Bank. All shares of common stock have the same voting rights.

Based on our share register, we believe we are not directly or indirectly owned or controlled by another corporation or government, and that there are no arrangements the operation of which may result in a change of control. From the date of completion of our initial public offering, February 14, 2002, there have not been any significant changes in the percentage ownership held by any major shareholders other than Aleksandrs Timohins' sale of 100% of his 6.95% stake to United Burlington Investments Limited in March 2003. In addition, in May 2003, certain shareholders in our controlling group of shareholders, some of whom are members of our Board of Directors, sold shares held by them amounting to approximately 4.0% of our total outstanding share capital. See "Item 3. Key Information—D. Risk Factors—We are controlled by a group of shareholders whose interests could conflict with those of the holders of our ADSs and notes." In connection with this sale, we entered into a deposit agreement with Deutsche Bank Trust Company Americas.

Since our initial public offering, we estimate that Groupe Danone, our competitor in the dairy market, has acquired between 6.2 and 7.0% of our ADSs. As of the date of this annual report, certain of our shareholders are engaged in preliminary discussions in relation to a possible transaction, which

may or may not result in the acquisition of all or a majority of our shares by Groupe Danone. We have, at the request of these shareholders, cooperated in such preliminary discussions. As of the date of this annual report, no agreement with respect to price or other material terms or conditions of a transaction has been reached. Moreover, no assurance can be made that these discussions will continue or that any agreement with respect to a transaction will be reached, or, if reached, what the form of the transaction will be. The terms of any such transaction may or may not be extended to our public shareholders.

B. Related Party Transactions

We entered into transactions with related and certain other parties. All transactions with the related parties were concluded on an arm's length basis. See Note 29 to our Consolidated and Combined Financial Statements as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000.

Disposition of Bank and Brewery Businesses

As part of our corporate reorganization, in the spring of 2001 we disposed of our controlling interests in Expobank, a banking company, and Central European Brewing Company LLC, a holding company for four breweries. These dispositions were based on the desire to focus on our core dairy and juice business and to divest our ancillary operations before our initial public offering. These dispositions were completed through a distribution of shares of Expobank and Central European Brewing Company LLC to certain members of our controlling group of shareholders: Mikhail V. Dubinin, Alexander S. Orlov, Sergei A. Plastinin, Mikhail I. Vishnyakov, Gavril A. Yushvaev, Evgeny L. Yaroslavsky and Aleksandrs Timohins, several of whom are also members of our Board of Directors. See "Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management" for a list of the members of our Board of Directors. In exchange, these same individuals simultaneously transferred their ownership in Tsaritsino Dairy Plant, totaling 55.3%, to Lianozovo Dairy Plant. The exchange was completed in April 2001. In addition, Mr. Vishnyakov, our shareholder, sold shares constituting 1.5% of Tsaritsino Dairy Plant to the Moscow Baby Food Plant in exchange for 5.0% of the shares of Expobank owned by the Moscow Baby Food Plant.

Trinity-Negus

Trinity-Negus, a Russian security services company, provided us with security services in 2000, 2001 and 2002 for which we paid approximately \$1.7 million, \$2.2 million and \$0.2 million, respectively. Trinity-Negus is a wholly owned subsidiary of Trinity LLC, in which two of our current shareholders, David Iakobachvili and Evgeny Yaroslavsky, are shareholders and directors, and Mikhail Vishnyakov is a director. Messrs. Iakobachvili, Yaroslavsky and Vishnyakov collectively own 17.4% of our common shares.

Adonis

During 2002 and 2001, we paid for construction of an administrative building amounting to \$2.3 million and \$4.1 million, respectively, to Adonis, a limited liability company, which is controlled by members of the control group of shareholders. The construction was capitalized as of December 31, 2002. As of December 31, 2002, there were no outstanding advances in respect of Adonis.

Poultry Factory Gorki-2

During 2002 and 2001, we purchased milk from Poultry Factory Gorki-2, a closed joint stock company, which is controlled by members of the control group of shareholders, amounting to \$0.3

million and \$0.6 million, respectively. At December 31, 2002 and 2001 there were no outstanding accounts payable to Poultry Factory Gorki-2 in respect of milk received.

Expobank

During 1999 and 2000, we maintained bank accounts at, and received debt financing from, Expobank, a Russian bank which we, at that time, controlled. In April 2001, we transferred our interest in Expobank to certain of our shareholders in exchange for shares owned by these shareholders in Tsaritsino Dairy Plant. See "—Disposition of Bank and Brewery Businesses" for a description of this exchange. These shareholders, on July 21, 2001, sold their interests in Expobank to MDM Bank, an unrelated entity. We received short-term financing of approximately \$18.3 million and \$7.8 million during 2000 and 1999, respectively, all of which was repaid within the year. Bank charges and interest relating to these financings were \$176,000 and \$271,000 for 2000 and 1999, respectively, with interest rates varying from 5% to 55% during 2000 and 29% to 39% during 1999. We currently have no debt outstanding from Expobank, and any future transactions with Expobank will be on arm's-length terms.

Sale of Shares to Templeton Strategic Emerging Markets Fund LDC

On January 4, 2002, certain of our controlling shareholders, Gavril Yushvaev, Mikhail Dubinin, Sergei Plastinin, Aleksandrs Timohins, Alexander Orlov, Mikhail Vishnyakov, Evgeny Yaroslavsky, and Viktor Evdokimov, entered into an agreement, to which we are also a party, to sell a total of 518,000 of our shares, constituting approximately 1.48% of our shares prior to the completion of our initial public offering, to Templeton Strategic Emerging Markets Fund LDC for a total amount of approximately \$10.0 million, or \$19.2870 per share. As part of the agreement, Templeton Strategic Emerging Markets Fund LDC agreed to nominate Dr. Mark Mobius to our Board of Directors.

Under the Templeton agreement, we had given Templeton a put option which it did not exercise and which expired upon the consummation of our initial public offering. We also provided a number of representations and warranties to Templeton, including representations and warranties regarding our capital structure, ability of selling shareholders to enter into the agreement and its enforceability, the accuracy of our audited financial statements as of and for the years ended 1999 and 2000, and the absence of any event which would have a material adverse effect on us since the date of those financial statements. Templeton does not have any registration rights agreement with us.

Brewery Volga, Volga-Invest and Moskvoretzky Brewery

As of December 31, 2002, we had loan receivables from Brewery Volga, Volga-Invest and Moskvoretzky Brewery amounting to \$0.7 million. These loans were interest-free, ruble-denominated and mature during 2003. The loans were provided in 2001 before the alienation of these breweries, described more fully above under "—Disposition of Bank and Brewery Businesses." From 2003, these loans will have an interest rate of 10% per annum.

Purchase of Stake in Moscow Baby Food Plant

Mr. Alexander Orlov, a party to the Amended and Restated Partnership and Cooperation Agreement, owned 4,666, or 25.1%, of the outstanding shares of the Moscow Baby Food Plant, of which we beneficially owned 51%. Our Board of Directors and shareholders approved our purchase of this stake for approximately \$5 million, and we purchased Mr. Orlov's 25.1% stake in June 2002.

Wimm-Bill-Dann Trans

During 2002, 2001 and 2000 we received transportation services from Wimm-Bill-Dann Trans, a closed joint stock company that is our investee, amounting to approximately \$6.0 million, \$5.3 million, and \$1.9 million, respectively. As of December 31, 2002, 2001 and 2000 advances paid to

Wimm-Bill-Dann Trans in respect of transportation services amounted to \$0.1 million, \$0.2 million and \$0, respectively.

Perekriostok

One of the members of our Board of Directors is also a member of the Board of Directors of Trade House "Perekriostok," which buys dairy and juice products from us. Sales to Perekriostok in 2002 were \$6.7 million. The amount due to us from Perekriostok at December 31, 2002 was \$0.4 million.

C. Interests of Experts and Counsel

Not applicable.

Item 8 Financial Information

A. Consolidated Statements and Other Financial Information

8.A.1 See Item 18

8.A.2 See Item 18

8.A.3 See Report of Independent Auditors, page F-2.

8.A.4 We have complied with this requirement.

8.A.5 Not Applicable

8.A.6 Not Applicable/See Item 18

8.A.7 Litigation

On May 23, 2003 a claim was filed with the Arbitration Court of the City of Moscow by our subsidiary, Fruit Rivers, in relation to a tax assessment in the amount of approximately \$6.9 million (including interest and penalties) Fruit Rivers received from the Russian Tax Authority. In addition, on May 26, 2003, we received notice that an appeal was filed by the Russian Tax Authority with the Federal Arbitration Court of the Moscow District in a case relating to the Russian Tax Authority's assessment of approximately \$2.4 million (including penalties) against Fruit Rivers. This appeal was subsequently dismissed by the Federal Arbitration Court of the Moscow District on June 16, 2003. For a more detailed description of these tax claims and our potential liability in relation thereto, see "Item 2. Key Information—D. Risk Factors—Risks Related to Our Financial Condition—If the various initiatives we have used to reduce our tax burden are successfully challenged by the Russian tax authorities, we will face significant losses associated with the assessed amount of tax underpaid and related interest and penalties, which would have a material impact on our financial condition and results of operations" and "—The elimination of a tax privilege from which we currently benefit and/or a successful challenge by the tax authorities of our use of this tax privilege would materially adversely affect our results of operations."

8.A.8 Dividend Distribution Policy

For a discussion of our policy on dividend distributions, see "Item 10. Additional Information—B. Charter and Certain Requirements of Russian Law—Dividends and Dividend Rights."

B. Significant Changes

In January 2003, we acquired a 100% interest in Sibirsky Syr ZAO in the Siberian region for US\$2.6 million. This acquisition provides us with a warehousing and refrigerating base adjacent to our principal Siberian production facility, Sibirskoe Moloko Dairy Plant.

In March 2003, we commenced operations at our bottled water factory in the Novgorod Region. As of December 31, 2002 our total investment in the water segment amounted to \$7.2 million.

In March 2003, Aleksandrs Timohins sold of 100% of his 6.95% stake in our share capital to United Burlington Investments Limited.

On April 15, 2003, we issued ruble-denominated bonds on the Moscow Interbank Currency Exchange amounting to 1.5 billion rubles (\$48 million at the April 15, 2003 exchange rate) to Russian institutional investors, guaranteed by Vitafrukt, one of our juice subsidiaries. The bonds mature on April 11, 2006. Interest is payable semi-annually. For the first coupon payment, interest is fixed at 12.9%, and subsequent interest payments will be indexed to the inflation rate. The bondholders have the right to demand prepayment in the event of payment defaults in relation to debt in excess of \$10 million or if certain financial tests are not met.

On May 21, 2003 we completed a US\$150 million Eurobond Regulation S/144A transaction. The transaction is structured as loan participation notes issued by UBS (Luxembourg) S.A. for the sole purpose of funding a loan to us pursuant to a Loan Agreement guaranteed by our subsidiaries Lianozovo Dairy Plant, Tsaritsino Dairy Plant and Trade Company Wimm-Bill-Dann pursuant to a guarantee. The notes were issued at par and mature on May 21, 2008. Interest is payable semi-annually at 8.50%. The notes are listed on the London Stock Exchange. The net proceeds we received from the loan were \$147.9 million. We intend to use approximately U.S. \$100 million of the aggregate proceeds of the loan and the April 2003 ruble-denominated bond to fund capital expenditures and approximately U.S. \$95 million to refinance certain existing short-term indebtedness.

On May 23, 2003 a claim was filed with the Arbitration Court of the City of Moscow by our subsidiary, Fruit Rivers, in relation to a tax assessment in the amount of approximately \$6.9 million (including interest and penalties) Fruit Rivers received from the Russian Tax Authority. In addition, on May 26, 2003, we received notice that an appeal was filed by the Russian Tax Authority with the Federal Arbitration Court of the Moscow District in a case relating to the Russian Tax Authority's assessment of approximately \$2.4 million (including penalties) against Fruit Rivers. This appeal was subsequently dismissed by the Federal Arbitration Court of the Moscow District on June 16, 2003. For a more detailed description of these tax claims and our potential liability in relation thereto, see "Item 2. Key Information—D. Risk Factors—Risks Related to Our Financial Condition—If the various initiatives we have used to reduce our tax burden are successfully challenged by the Russian tax authorities, we will face significant losses associated with the assessed amount of tax underpaid and related interest and penalties, which would have a material impact on our financial condition and results of operations" and "—The elimination of a tax privilege from which we currently benefit and/or a successful challenge by the tax authorities of our use of this tax privilege would materially adversely affect our results of operations."

In May, 2003, certain shareholders in our controlling group of shareholders, some of whom are members of our Board of Directors, sold shares held by them amounting to approximately 4.0% of our total outstanding share capital.

As of the date of this annual report, certain of our shareholders are engaged in preliminary discussions in relation to a possible transaction, which may or may not result in the acquisition of all or a majority of our shares by Groupe Danone. We have, at the request of these shareholders, cooperated in such preliminary discussions. As of the date of this annual report, no agreement with respect to price or other material terms or conditions of a transaction has been reached. Moreover, no assurance can be made that these discussions will continue or that any agreement with respect to a transaction will be reached, or, if reached, what the form of the transaction will be. The terms of any such transaction may or may not be extended to our public shareholders.

Item 9 The Offer and Listing

(Items 9A 1-3, 9A 5-7, B, D, E and F are not applicable.)

A.4. Market Price Information

The following table sets forth the monthly high and low market prices per ADS on the New York Stock Exchange for each of the most recent six months; the quarterly high and low market prices per ADS for each quarter since our initial public offering in February 2002; and the annual high and low market prices per ADS during 2002. Our ordinary shares are currently listed in Russia on the RTS and admitted for listing on MICEX.

	High	Low
May 2003	\$ 20.99	\$ 18.20
April 2003	\$ 19.08	\$ 17.63
March 2003	\$ 19.69	\$ 16.65
February 2003	\$ 19.39	\$ 17.02
January 2003	\$ 18.97	\$ 17.78
December 2002	\$ 18.40	\$ 16.35
First Quarter 2003	\$ 19.69	\$ 16.65
Fourth Quarter 2002	\$ 20.50	\$ 16.35
Third Quarter 2002	\$ 21.50	\$ 16.79
Second Quarter 2002	\$ 24.95	\$ 20.00
2002	\$ 24.95	\$ 16.35

C. Markets

Our ordinary shares are listed in Russia on the RTS and admitted for listing on MICEX. American Depositary Receipts, each representing one of our ordinary shares, have been listed on the New York Stock Exchange under the symbol "WBD" since February 8, 2002.

Item 10 Additional Information

A. Share Capital

Not applicable.

B. Charter and Certain Requirements of Russian Legislation

We describe below material provisions of our charter in effect on the date of this document and certain requirements of Russian legislation. In addition to this description, we urge you to review our charter to learn its complete terms.

Our Purpose

Article 4.1 of our charter provides that our main goal is to earn a profit by providing the fullest and highest-quality satisfaction of the needs of legal entities and individuals for the products and services we offer.

Rights Attaching to Shares

Pursuant to our charter, we have the right to issue registered common shares, preferred shares, and other securities provided for by legal acts of the Russian Federation with respect to securities.

Preferred shares may be issued only after corresponding amendments have been made to our charter pursuant to a resolution of the general meeting of shareholders.

We have issued only common shares. Holders of our common shares have the right to vote at all general meetings of shareholders. As required by the Federal Law on Joint Stock Companies and our charter, all of our common shares have the same par value and grant to the shareholders who own them an identical amount of rights. Each fully paid share of common stock, except for treasury shares, gives its holder the right to:

- freely transfer the shares without consent of other shareholders;
- receive dividends;
- participate in shareholders meetings and vote on all matters of shareholder authority;
- transfer voting rights to its representative on the basis of a power of attorney;
- elect candidates for the board of directors and audit commission;
- if holding, alone or with other holders, 2% or more of the outstanding voting stock, within 30 days after the end of our fiscal year, make proposals for the annual shareholders' meeting and propose candidates for the board of directors, the management board, the counting commission, the audit commission and the general director;
- if holding, alone or with other holders, 10% or more of the outstanding voting stock, demand from the board of directors the calling of an extraordinary shareholders meeting or an unscheduled audit by the audit commission or an independent auditor;
- demand, under the following circumstances, repurchase by us of all or some of the shares owned by it,
 - conclusion of a major transaction; and
 - amendment of our charter that restricts the holder's rights (in addition, there is some uncertainty under Russian law as to whether such repurchase right exists in relation to closed issuance of shares and convertible securities);
- upon liquidation, receive a proportionate amount of our property after the company's obligations are fulfilled;
- have free access to certain company documents and receive copies for a reasonable fee and, if holding alone or with other holders, 25% or more of the outstanding voting stock, have free access to accounting documents and minutes of the company's collective executive body; and
- exercise other rights of a shareholder given in our charter, under Russian legislation, and by decisions of shareholders meeting approved in accordance with its competence.

Preemptive Rights and Anti-Takeover Protections

Our charter provides existing shareholders with a preemptive right to purchase shares or convertible securities during an open subscription. In addition, the Federal Law on Joint Stock Companies provides shareholders with a preemptive right to purchase shares or convertible securities during a closed subscription if the following two conditions are met: (i) the shareholders did not participate in voting or voted against such subscription and (ii) persons other than the shareholders may subscribe for the shares pursuant to the subscription terms. Russian legislation also requires that any person that intends, either alone or with affiliates, to acquire 30% or more of the common stock of a company having more than 1,000 common shareholders must give at least 30, but no more than 90, days' prior written notice to the existing shareholders.

Additionally, a person acquiring 30% or more of the common stock of a company with more than 1,000 shareholders, within 30 days of acquiring 30% or more, must offer to buy all of common stock or securities that are convertible into common stock at a price not lower than the weighted average acquisition price of the common stock over the six months before the date of acquisition of 30% or more of the common stock. This requirement also applies to any acquisitions of 5% or more of the outstanding shares of a company in over the 30% level. Failure to observe this requirement results in the limitation of the acquirer to voting only those shares which were purchased in compliance with this requirement. This requirement may be waived in a company's charter or by a resolution adopted by a majority vote at a shareholders meeting, excluding the votes of the person acquiring shares. Our charter does not contain a waiver in relation to, and our shareholders have not waived, this requirement. Russian legislation is unclear on whether this requirement applies to shareholders already owning over 30% of a company's common stock.

Dividends and Dividend Rights

The Federal Law on Joint Stock Companies and our charter set forth the procedure for determining the annual dividends that we distribute to our shareholders. According to our charter, annual dividends are recommended to a shareholders meeting by a majority vote of the board of directors, and approved by an annual shareholders meeting by a majority vote. The annual dividend approved at an annual shareholders meeting may not be more than the amount recommended by the board of directors. Annual dividends are distributed to shareholders and nominal holders who were included in the company's register on the day on which the list of persons having the right to participate in the annual shareholders' meeting was compiled. See "—General Meetings of Shareholders—Notice and Participation." Dividends are not paid on treasury shares.

The Federal Law on Joint Stock Companies allows dividends to be paid only out of net profits for the current year calculated under Russian accounting principles and as long as the following conditions have been met:

- the charter capital of the company has been paid in full;
- the value of the company's net assets, minus the proposed dividend payment, is greater than the total of the company's charter capital and the company's reserve fund;
- the company has repurchased all shares from shareholders having the right to demand repurchase; and
- the company is not, and would not become as the result of payment of dividends, insolvent.

Distributions on Liquidation to Shareholders

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. Our charter allows us to be liquidated:

- by a three-quarters shareholders meeting vote; or
- by a court order.

Following a decision to liquidate us, the right to manage its affairs would pass to the liquidation commission which, in the case of voluntary liquidation, is appointed by shareholders meeting and, in an involuntary liquidation, is appointed by the court. Creditors may file claims within a period to be determined by the liquidation commission, but which is at least two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation:

- individuals owed compensation for injuries or deaths caused by a company;

- employees;
- secured creditors;
- federal and local governmental entities claiming taxes and similar payments; and
- other creditors in accordance with Russian legislation.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred stock and the liquidation value of the preferred stock, if any; and
- payments to holders of common stock on a pro rata basis.

Risks Regarding Exercise of Rights Associated with ADSs

The regulations governing nominee holders, custodians and depositaries are not yet well developed in Russia. The existing regulations could be interpreted as requiring a nominee holder or a depositary to obtain a license from the Russian authorities to act in that capacity with regard to shares of our common stock. This applies to both Russian and foreign nominee holders and depositaries. This could result in your inability to exercise your rights as a holder of our ADSs, including voting. The same problem may also affect the ability of the depositary to grant a discretionary proxy to a person designated by us if you do not give any voting instructions. Further, in the past, nominees have reportedly experienced difficulty in convincing registrars of their right to represent the beneficial holder and to obtain the benefits for the beneficial holders available under an applicable tax treaty. This could result in your inability to obtain the benefits due to you as a holder of our ADSs. However, the Federal Law on the Securities Markets provides that shares may be held by nominees entitled to receive dividends and to vote the shares on behalf of the beneficial owner upon receipt of the appropriate instructions from the beneficial owner. The nominee is required to provide information on the beneficial holder of the shares upon the demand of the registrar. Some of the difficulties initially experienced by investors appear to have been abated by the Federal Law on the Securities Markets and by the regulations on registrars that govern issues concerning nominees.

Approval of the Ministry of Antimonopoly Policy of the Russian Federation

Pursuant to Russian antimonopoly legislation, transactions exceeding a certain amount or involving a company considered to have a dominant market position and which would result in a shareholder's (or a group of affiliated shareholders) shareholdings in a company equaling or exceeding 20% of the total shareholdings in a company must be approved in advance by the Ministry of Antimonopoly Policy of the Russian Federation.

Notification of Foreign Ownership

Pursuant to Russian securities legislation, any foreign person or company acquiring shares in a Russian joint stock company must notify the Russian Federal Commission on Securities Markets of such acquisition on the date of such acquisition in the form and substance required by Russian securities legislation. In addition, foreign persons registered as individual entrepreneurs in Russia who acquire shares in a Russian joint stock company and foreign companies that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition if they are already registered with the Russian tax authorities at the time of acquisition. Russian law is unclear as to whether foreign persons and companies that are not registered with the Russian tax authorities at the time of their share acquisitions must register solely for the reason of such

share acquisitions. Other than these requirements, there are no requirements or restrictions with respect to foreign ownership of shares in the Company.

Liability of Shareholders

The Civil Code and the Federal Law on Joint Stock Companies generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one company is capable of determining decisions made by another company. The company capable of determining such decisions is called an effective parent. The company whose decisions are capable of being so determined is called an effective subsidiary. The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies, and
- the effective parent gives obligatory directions to the effective subsidiary.

Thus, a shareholder of an effective parent is not itself liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. Accordingly, you will not be personally liable for our debts or those of our effective subsidiaries unless you control our business.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in losses.

Alteration of Capital

Share Capital Increase

We may increase our charter capital by

- issuing new shares, or
- increasing the nominal value of already issued shares using the company's net income.

Generally, a decision to increase the charter capital by issuing additional shares or increasing the nominal value of issued shares requires a majority vote of a shareholders meeting. In addition, the issuance of shares above the number provided in our charter necessitates a charter amendment, which requires a three-quarters affirmative vote of a shareholders meeting.

The Federal Law on Joint Stock Companies requires that newly issued shares be sold at market value, except in limited circumstances where (i) existing shareholders exercise a preemptive right to purchase shares at not less than 90% of their market value or the price paid by third parties, or (ii) fees up to 10% are paid to intermediaries, in which case the fees paid may be deducted from the price. The market value may not be set at less than the nominal value of the shares. The board of directors and an independent appraiser value any in-kind payments for the new shares.

The Federal Commission on the Securities Market, under the power given to it by the Federal Law on the Securities Market, has issued detailed procedures for the registration and issue of shares of a joint stock company. These procedures require

- prior registration of a share issuance with the Federal Commission on the Securities Market;
- public disclosure of information relating to the share issuance; and
- following the placement of the shares, registration and public disclosure of the results of the placement of shares.

Capital Decrease; Share Buy-Backs

The Federal Law on Joint-Stock Companies does not allow a company to reduce its charter capital below the minimum charter capital required by law. As of December 31, 2002, the charter capital minimum for an open joint stock company was approximately \$3,140. Our charter requires that any decision to reduce our charter capital, whether through the repurchase and cancellation of shares or a reduction in the nominal value of the shares, is by a majority vote of a shareholders meeting. Additionally, within 30 days of a decision to reduce our charter capital, we must issue written notice to our creditors and publish this decision. Our creditors would then have the right to demand, within 30 days of the publication or mailing of our notice, repayment of all amounts due to them, as well as compensation for damages.

The Federal Law on Joint Stock Companies allows the shareholders or the board of directors to authorize the repurchase of up to 10% of our shares in exchange for cash. The repurchased shares either must be resold within one year of their repurchase or the shareholders must decide to cancel such shares and then either decrease the charter capital or increase the nominal value of the remaining shares to preserve the total amount of the charter capital.

The Federal Law on Joint Stock Companies allows us to repurchase our shares only if, at the time of repurchase:

- our charter capital is paid in full;
- we are not and would not become, as a result of the repurchase, insolvent;
- the value of our net assets, taking account of the proposed repurchase, is not less than the sum of our charter capital or the reserve fund; and
- we have repurchased all shares from shareholders having a right to demand repurchase of their shares under legislation protecting the rights of minority shareholders, as described immediately below.

Russian legislation and our charter provide that our shareholders may demand repurchase of their shares if

- we reorganize;
- our charter is amended and the change negatively affects a shareholder; or
- we engage in a major transaction, as defined under Russian law;

and as long as the shareholder demanding repurchase opposed the action or did not participate in the vote on such issues. In addition, there is some uncertainty under Russian law as to whether the shareholder may demand repurchase of its shares if we decide on a closed subscription for our shares. We may spend up to 10% of our net assets for a share redemption.

Directors

Our charter provides that our entire board of directors is up for election at each annual general shareholders meeting and that our board of directors is elected through cumulative voting. Before the

expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of a shareholders meeting.

The Federal Law on Joint Stock Companies requires at least a seven-member board of directors for an open joint stock company with more than 1,000 holders of common stock, and at least a nine-member board of directors for an open joint stock company with more than 10,000 holders of common stock. Our charter provides that our board of directors consists of eleven members.

The Federal Law on Joint Stock Companies prohibits a board of directors from acting on issues that fall within the exclusive competence of the general shareholders meeting. Our board of directors has the exclusive power to decide the following issues

- organization of shareholders meetings, including setting a date, approving an agenda, and determining the date of record for shareholders entitled to participate;
- our placement of bonds and other securities;
- determination of the market value of our property, market and repurchase price of our shares;
- our acquisition of our shares, bonds, and other securities in certain cases provided for by the Law on Joint Stock Companies;
- determination of the formation of our executive bodies and early termination of their powers;
- election of our management board and its chairman and the establishment of their compensation;
- recommendations on the amount of the dividend on shares and the procedure for payment thereof;
- the use of our reserve fund;
- the creation of branches and representative offices;
- approval of major and interested party transactions in certain cases as provided for by the Law on Joint Stock Companies;
- determination of our business priorities;
- decision on our participation in other organizations with the exception of participation in holding companies, commercial or industrial groups where shareholders' vote is required by our charter; and
- approval of our share registrar.

Our charter generally requires a majority affirmative vote of the directors present for an action to pass, with the exception of actions for which Russian legislation requires a qualified or unanimous vote, such as approval of major transactions or interested party transactions.

Interested Party Transactions

The Federal Law on Joint Stock Companies contains requirements for transactions with "interested parties." The definition of an "interested party" includes members of the board of directors, officers of a company and any person that owns, together with any affiliates, at least 20% of a company's voting shares or is able to direct the actions of the company, if that person, or that person's relatives or affiliates is

- a party to a transaction with the company, whether directly, as a third party beneficiary, or as a representative or intermediary;

- the owner of at least 20% of the issued voting shares of a legal entity that is a party to a transaction with the company, whether directly, as a third party beneficiary, or as a representative or intermediary; or
- a member of the board of directors or an officer of a company which is a party to a transaction with the company, whether directly, as a third party beneficiary, or as a representative or intermediary.

The Federal Law on Joint Stock Companies also introduces the definition of "an independent director" who is not, and within the year preceding the decision was not, a general director or a member of the management board if, in this instance, the person's spouse, parents, children, brothers or sisters are not persons occupying positions in the management authorities of the company or otherwise an affiliate of the company.

An interested party transaction entered into by a company with 1,000 or less shareholders shall be adopted by a majority vote of directors who are not "interested parties" in the transaction.

The Federal Law on Joint Stock Companies requires that a transaction by companies with more than 1,000 shareholders with an interested party be approved by a majority vote of the "independent directors" of the company who are not "interested parties" in the transaction. For companies with 1,000 or less shareholders, a transaction with an interested party must be approved by a majority vote of the directors who are not "interested parties" in the transaction if the number of these directors is sufficient to constitute a quorum.

A majority of shareholders who are not "interested parties" in the transaction is also required if:

- the value of such transaction exceeds 2% of the value of the company's assets;
- the transaction involves the issuance of common stock or securities convertible into voting shares in an amount exceeding 2% of the company's existing common stock; or
- the number of directors who are not "interested parties" is not sufficient to constitute a quorum.

Approval by a majority of shareholders who are not "interested parties" may not be required for a transaction with an "interested party" if such transaction is substantially similar to transactions concluded by the company and the party in the normal course of business before such party became an "interested party."

Major Transactions

The Federal Law on Joint Stock Companies defines a "major transaction" as a transaction, or series of transactions, involving the acquisition or disposition, or a possibility of disposition of 25% or more of the balance sheet value of the assets of a company, with the exception of transaction completed in the normal course of business or a transaction, or series of transactions, involving placement of common shares, or securities convertible into common shares, comprising more than 25% of previously placed common shares. Major transactions involving assets ranging from 25% to 50% of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or a simple majority affirmative vote of a shareholders meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company require a three-quarters vote by a shareholders meeting.

General Meetings of Shareholders

Procedure

The powers of a shareholders meeting are set forth in the Federal Law on Joint Stock Companies and in our charter. A shareholders meeting may not decide issues that are not included in the list of its

competence by the Federal Law on Joint Stock Companies and our charter. Among the issues which the shareholders have the exclusive power to decide are

- charter amendments;
- initiation of reorganization or liquidation;
- election of the members of the board of directors;
- determination of the number, nominal value, type of authorized shares and rights granted by such shares;
- changes in the company's charter capital;
- approval of transactions with interested parties, as defined under "Interested Party Transactions," and major transactions, as defined under "Major Transactions";
- distribution of profits and losses; and
- redemption by the company of issued shares.

Voting at a shareholders meeting is generally on the principle of one vote per share of common stock, with the exception of the election of the board of directors, which is done through cumulative voting. Decisions are generally passed by an affirmative vote of a majority of the voting shares present at a shareholders meeting. However, Russian law requires a three-quarters affirmative vote of the voting shares present at a shareholders meeting to approve the following:

- charter amendments;
- reorganization or liquidation;
- major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company;
- determination of the maximum amount, nominal value, and type of authorized shares and the rights granted by such shares;
- redemption by the company of issued shares; or
- any issuance of shares or securities convertible into shares by closed subscription, or issuance by open subscription of shares of common stock or securities convertible into common stock constituting 25% or more of the number of issued common shares.

The quorum requirement for our shareholders meetings is met if holders of shares that account for more than 50% of the votes have registered for participation in the meeting in person or whose ballots were timely received by us before the meeting. If the 50% quorum requirement is not met, another shareholders meeting must be scheduled and the quorum requirement is satisfied if holders of shares that account for at least 30% of the votes are present at that meeting.

The annual shareholders meeting must be convened by the board of directors between March 1 and June 30 of each year, and the agenda must include the following items:

- determination of the number and election of members of the board of directors;
- approval of the annual report, balance sheet and profit and loss statement;
- approval of any distribution of profits;
- approval of an independent auditor; and
- approval of an internal audit commission.

A shareholder or group of shareholders owning in the aggregate at least 2% of the issued voting shares may introduce proposals for the agenda of the annual shareholders meeting and may nominate candidates for the board of directors, management board, counting commission, audit commission and general director. Any agenda proposals or nominations must be provided to the company no later than 30 calendar days after December 31.

Extraordinary shareholders meetings may be called by the board of directors on its own initiative, or at the request of the audit commission, independent auditor or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request.

A general meeting of shareholders may be held in direct form or by absentee ballot. The direct form contemplates the adoption of resolutions by the general meeting of shareholders through the joint personal attendance of the shareholders and their authorized representatives for the purpose of discussing and voting on issues on the agenda. However, if a ballot is mailed to a shareholder for participation at a meeting convened in a direct form, the shareholder may complete and mail the ballot back to us without personally attending the meeting. The absentee ballot contemplates the determination of shareholders' opinions on issues on the agenda by means of a written poll.

Notice and Participation

All shareholders entitled to participate in a given general shareholders meeting must be notified of a meeting, whether the meeting is to be held in direct or remote form, no less than 20 days prior to the date of the meeting. However, if reorganization is an agenda item, shareholders must be notified at least 30 days prior to the date of the meeting, and if it is an extraordinary shareholders meeting to elect the board of directors by cumulative vote, shareholders must be notified at least 50 days prior to the date of the meeting. The list of shareholders entitled to participate in a general shareholders meeting is to be compiled on the basis of data in our register of shareholders on the date established by the Board of Directors.

The date established for the compilation of the list of shareholders entitled to participate in a general shareholders meeting may be neither earlier than the date of adoption of the resolution to hold a general shareholders meeting nor later than 50 days before the date of the meeting or, in the case of a shareholders meeting to elect the Board of Directors by cumulative vote, not later than 65 days before the date of the meeting.

The following issues cannot be decided by absentee ballot:

- election of directors;
- election of the audit commission;
- approval of company's independent auditor; and
- approval of the annual report, balance sheet, profit and loss statement, and any distribution of profits.

The right to participate in a general meeting of shareholders may be exercised by a shareholder as follows:

- by personally participating in the discussion of agenda items and voting thereon;
- by sending an authorized representative to participate in the discussion of agenda items and to vote thereon;
- by absentee ballot; or
- by delegating the right of absentee ballot to an authorized representative.

Registration and Transfer of Shares

All of our shares are common registered shares. Russian legislation requires that a joint stock company maintain a register of its shareholders. Since June 28, 2001, Central Moscow Depository OJSC has maintained our register of shareholders.

The purchase, sale or other transfer of shares is accomplished through the registration of the transfer in the share register, or the registration of the transfer with a depositary if shares are held by a depositary. The registrar or depositary may not require any documents in addition to that which is required by Russian legislation. Any refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is void and may be disputed.

Reserve Fund

Russian legislation requires that each joint stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and redeem the company's shares in cases when other funds are not available. Our charter provides for a reserve fund of 5% of our charter capital, funded through mandatory annual transfers of at least 5% of our net profits until the reserve fund has reached the 5% requirement.

C. Material Contracts

The following is a description of contracts that have been entered into by us and/or our subsidiaries that may be material to our business:

Loan Agreement relating to the Eurobond and Guarantee

On May 14, 2003, we entered into a loan agreement with UBS (Luxembourg) S.A. as lender, pursuant to which UBS (Luxembourg) S.A. lent to us a principal amount of U.S.\$150,000,000 on May 21, 2003. The loan matures on May 21, 2008, and interest is payable by us semi-annually in arrears at an annual rate of 8.5%. For the sole purpose of financing this loan to us, UBS (Luxembourg) S.A. issued U.S.\$150,000,000 8.5% Loan Participation Notes due 2008 on May 21, 2003.

The above-mentioned loan to us is initially, unconditionally, irrevocably, jointly and severally guaranteed by the Lianozovo Dairy Plant, the Tsaritsino Dairy Plant and Trade Company Wimm-Bill-Dann pursuant to a guarantee dated May 14, 2003 entered into with UBS (Luxembourg) S.A.

Both the loan agreement and the guarantee are governed by English law. In the loan agreement, we agreed to certain covenants in respect of, amongst other things, liens, asset sales, transactions with affiliates and related persons, change of control, mergers and similar transactions, no limitation on dividend or other payments affecting our subsidiaries and maintenance of certain ratios. In the guarantee, Lianozovo Dairy Plant, Tsaritsino Dairy Plant and Trade Company Wimm-Bill-Dann agreed to similar covenants.

Tetra Pak Agreement for Our Milk Product Packages

On January 1, 2003, Lianozovo Dairy Plant entered into a supply agreement to purchase packages for our milk products from JSC Tetra Pak AO of Moscow. The contract terminates on December 31, 2003. The price for each type of packaging is specified in the contract. The contract sets an approximate price of \$40 million, but specifies that the exact sum will be determined in accordance with the cost of the packing material actually delivered. The contract does not specify a total quantity of packages. Under this agreement, Tetra Pak delivers packages in accordance with orders placed by Lianozovo Dairy Plant. Tetra Pak has the right to deliver up to 10% more or less than the quantity ordered, and the price will be adjusted accordingly.

Tetra Pak Agreement for Our Juice Product Packages

On January 1, 2003, ZAO Wimm-Bill-Dann Purchaser entered into a supply agreement to purchase packages for its products from JSC Tetra Pak AO of Moscow. The contract terminates on

December 31, 2003. The price for each type of packaging is specified in the contract. The contract does not specify a total price or quantity of packages. We estimate that the total amount of our purchases under the contract will be approximately \$50 million, though the exact sum will be determined in accordance with the cost of the packing material actually delivered. Under this agreement, Tetra Pak delivers packages to us in accordance with a delivery schedule to be agreed between Tetra Pak and the purchaser. Tetra Pak has the right to deliver up to 10% more or less than the quantity ordered, and the price will be adjusted accordingly.

Amended and Restated Partnership and Cooperation Agreement

Of our current shareholders, Gavril Yushvaev, Mikhail Dubinin, Sergei Plastinin, Aleksandrs Timohins, Alexander Orlov, David Iakobachvili and Mikhail Vishnyakov acted in concert since 1997 pursuant to a Partnership and Cooperation Agreement which required the parties to vote the same way. These shareholders observed this obligation by holding meetings prior to build a consensus approach on questions requiring shareholder approval prior to calling a shareholders' meeting. On January 16, 2002, these shareholders amended and restated this agreement to include the following:

New Party. Viktor Evdokimov was added as a party to the agreement.

Independent Directors. The parties to the agreement undertake to use their best efforts to ensure that a majority of our directors are "independent." A director is considered "independent" if that person is not

- our employee or an employee or director of any of our subsidiaries;
- a party to the agreement, a family member of a party to the agreement, or a person or entity controlled by a party to the agreement;
- an employee or director of
 - a party to the agreement;
 - a family member of a party to the agreement;
 - a person or entity controlled by a party to the agreement;
 - any other person or entity controlled by a family member of a party to the agreement; or
 - a person or entity controlled by any employee or director of any of the parties to the agreement;
- a person or entity controlled by any family member of a party to the agreement or a person or entity controlled by any employee or director of a party to the agreement.

Voting. The parties to the agreement are required to vote all of our shares that they own in the same way. In order to determine how the parties will vote, the agreement requires them to attempt to agree unanimously on a single voting position on each item on the agenda for a shareholders' meeting. If they are unable to do so, then the following procedures are followed:

- The parties will vote their shares as determined by parties holding a two-thirds majority of the shares held by the parties;
- If there is no two-thirds majority among the parties, then the parties will vote their shares consistent with the recommendation of the majority of individuals who are on our board of directors; and

- If no voting position can be determined using the procedures noted above, then the parties will abstain from voting on that issue, in which case a quorum will not be present under Russian law and the issue would fail to be adopted.

Third-Party Beneficiaries. Beneficial owners of the our ADSs are third-party beneficiaries of the agreement and are entitled to enforce and bring actions in respect of the agreement. An action may only be brought, however, if beneficial owners of ADSs constituting more than 50% of our outstanding ADSs, excluding any ADSs held by the parties to the agreement, are parties to such action.

Dispute Resolution. The governing law of the agreement is the law of the State of New York. Any dispute, controversy or cause of action brought arising under the agreement will be settled by arbitration under the Commercial Arbitration Rules of the American Arbitration Association. Any cause of action brought by beneficial owners of more than 50% of the outstanding ADSs, excluding any ADSs held by parties to the agreement, at the option of these owners, may be brought in arbitration under the Commercial Arbitration Rules of the American Arbitration Association or may be litigated in the federal or state courts in the Borough of Manhattan. The parties to the agreement expect to appoint C T Corporation System, 111 Eighth Avenue, New York, New York 10011, as agent for service of process in New York.

Term. The agreement may not be terminated until the earlier to occur of:

- any party to the agreement owning all of our issued and outstanding shares;
- we are liquidated pursuant to the laws of the Russian Federation; or
- January 16, 2004.

Upon the occurrence of the first two events described above, the agreement automatically terminates. Otherwise, subject to these conditions, the agreement continues in full force and effect until terminated by any party to the agreement by giving 30 days' prior written notice to all other parties to the agreement and to us. See "Item 3. Key Information—D. Risk Factors—Risks Relating to our Business and Industry—We are controlled by a group of shareholders whose interests could conflict with those of the holders of our ADSs and notes."

Lianozovo Dairy Plant Bonds Issuance and Our Guarantee

On November 1, 2001 Lianozovo Dairy Plant issued unsecured ruble denominated bonds amounting to 500,000,000 rubles (approximately \$15.7 million at the December 31, 2002 exchange rate). The issuance was registered by the Russian Federal Commission on Securities Markets on October 11, 2001, and the report on the results of the issuance was registered by the Russian Federal Commission on Securities Markets on November 23, 2001. The bonds mature 1,093 days from November 1, 2001 (on November 1, 2004). Interest is payable quarterly. For the first year, interest was fixed at 22.75% and is subsequently adjusted depending upon market conditions and market rates of interest. For the period from November 1, 2002 to January 31, 2003 interest was fixed at 18.00%. Lianozovo Dairy Plant is obliged to redeem a bond if its holder notifies Lianozovo Dairy Plant of its intention to redeem the bond between October 10, 2003 and October 24, 2003. Management believes that the likelihood of any bondholders requesting redemption directly from Lianozovo Dairy Plant during this two week period is remote.

We entered into Agreement No. 2-WBD with Lianozovo Dairy Plant on September 10, 2001, whereby we undertook to act a guarantor with respect to the bonds. The guarantee, unanimously approved by our shareholders on September 7, 2001, expires upon repayment of the bonds or of the guarantee in full.

D. Exchange Controls

Capital import and export restrictions

Russian currency exchange legislation limits the exchangeability of rubles for foreign currency and the use of foreign currency in Russia. Russian currency legislation currently permits, and Russian foreign investment legislation currently guarantees, the right of foreign investors to convert ruble income received on investments in Russia (including dividends, profits and interest) and to transfer it abroad. However, the actual repatriation of proceeds from the sale of certain investments may be postponed for as long as 365 days.

Foreign currency may be freely exchanged for rubles in Russia, but the exchange of rubles for foreign currency in Russia is restricted and rubles may not be exported (subject to certain exceptions applicable to authorized banks and individuals) or exchanged outside Russia. Non-residents may freely convert foreign currency into rubles. However, non-residents, other than individuals, may only do so through ruble accounts which are subject to strict regulations.

The currency exchange rules govern transactions in foreign currencies and currency valuables (including foreign currency-denominated securities) between Russian residents (including citizens, permanent residents and legal entities established under Russian law) and foreign currency and ruble transactions between residents and non-residents. Russian currency legislation distinguishes between "current" foreign currency transactions and foreign currency transactions involving a "movement of capital."

"Current" foreign currency transactions generally may be freely carried out between residents and between residents and non-residents. "Movement of capital" transactions in foreign currency, including the purchase and sale of securities (except for the acquisition of shares of a Russian company by non-resident shareholders in consideration for their contributions of foreign currency into the Russian company's share capital) and real estate transactions (except for the acquisition and lease of real estate located in Russia by non-residents from non-individual residents of Russia), generally require a license from the Russian Central Bank. The prevailing view is that the license is only required for Russian residents involved in such "movement of capital" transactions. Cash transactions in foreign currency are generally prohibited within Russia.

Following the financial crisis of 1998, additional regulations on foreign currency exchange were enacted. For example, the mandatory exchange of 75% of export revenues of Russian companies was required to be effected through the domestic foreign currency market. This requirement has been assisting the Russian Central Bank in increasing its foreign currency reserves. In 2001, the mandatory exchange requirement was reduced to 50% of export revenues.

Since 2001, certain steps have been taken to remove some of the more onerous currency control requirements. In particular, Russian companies can now receive long-term loans from foreign lenders without a Central Bank license provided that certain conditions are met.

In the years ended December 31, 2000, 2001 and 2002, we had minimal sales in foreign currency, although we plan to increase these sales. This requirement further increases balances in our ruble-denominated accounts and, consequently, our exposure to devaluation risk.

Restrictions on the remittance of dividends, interest or other payments to non-residents

The Federal Law on Foreign Investments in the Russian Federation specifically guarantees foreign investors the right to repatriate their earnings from Russian investments. However, the Russian exchange control regime may materially affect your ability to do so.

Central Bank Instruction #93-I on the Procedure for Opening Bank Accounts for Non-Residents in Russian currency, which addresses the payment of dividends to non-residents, provides that ruble

dividends on common stock may be paid to the depository or its nominee and converted into U.S. dollars by the depository for distribution to owners of ADSs without restriction. Also, ADSs may be sold by non-residents of Russia for U.S. dollars outside Russia without regard to Russian currency control laws as long as the buyer is not a Russian resident.

Under the terms of the deposit agreement, there is no restriction on the sale of our ADSs in Russia to Russian residents. However, Russian currency control legislation will affect the ability of a non-resident of Russia to sell our ADSs to a Russian resident. Without a Central Bank license, a Russian resident generally can only purchase securities for rubles and up to \$75,000 of foreign-currency denominated securities, such as our ADSs. Additionally, the repatriation of proceeds from the sale of securities in Russia may be subject to costs and delays.

The ability of the depository and other persons to convert rubles into U.S. dollars is also subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of rubles into foreign currencies outside of Russia and no viable market in which to hedge ruble-currency and ruble-denominated investments.

E. Taxation

The following discussion describes the material United States federal and Russian income and withholding tax consequences to you if you are a U.S. holder of common stock or ADSs and a resident of the United States for purposes of the United States-Russia income tax treaty and are fully eligible for benefits under the United States-Russia income tax treaty. Subject to certain provisions of the United States-Russia income tax treaty relating to limitations on benefits, you generally will be a resident of the United States for treaty purposes that is entitled to treaty benefits if you are:

- liable, under the laws of the United States, to U.S. tax (other than taxes in respect only of income from sources in the United States or capital situated therein) by reason of your domicile, residence, citizenship, place of incorporation, or any other similar criterion (and, for income derived by a partnership, trust or estate, residence is determined in accordance with the residence of the person liable to tax with respect to such income); and
- not also a resident of the Russian Federation for Russian tax purposes.

The benefits under the United States-Russia income tax treaty discussed in this document generally are not available to U.S. persons who hold ADSs or common stock in connection with the conduct of a business in the Russian Federation through a permanent establishment as defined in the United States-Russia income tax treaty. Subject to certain exceptions, a U.S. person's permanent establishment under the United States-Russia income tax treaty is a fixed place of business through which such person carries on business activities in the Russian Federation (generally including, but not limited to, a place of management, a branch, an office, and a factory). Under certain circumstances, a U.S. person may be deemed to have a permanent establishment in the Russian Federation as a result of activities carried on in the Russian Federation through agents of the U.S. person. This summary does not address the treatment of holders described in this paragraph.

The following discussion is based on:

- the United States Internal Revenue Code of 1986, as amended, the Treasury regulations promulgated thereunder, and judicial and administrative interpretations thereof;
- Russian legislation; and
- the United States-Russia income tax treaty (and judicial and administrative interpretations thereof);

all as in effect on the date of this document. All of the foregoing are subject to change, possibly on a retroactive basis, after the date of this document. This discussion is also based, in part, on representations of the depositary, and assumes that each obligation in the deposit agreement and any related agreements will be performed in accordance with its terms. The discussion with respect to Russian legislation is based on our understanding of current Russian law and Russian tax rules, which are subject to frequent change and varying interpretations.

We believe, and the following discussion assumes, that for United States federal income tax purposes, we are not a passive foreign investment company or a foreign personal holding company for the current taxable year and will not become a passive foreign investment company or foreign personal holding company in the future.

The following discussion is intended as a general description only and is not intended as tax advice to any particular investor. It is also not a complete analysis or listing of all potential United States federal or Russian income and withholding tax consequences to you of ownership of common stock or ADSs. We urge you to consult your own tax adviser regarding the specific United States federal, state, and local and Russian tax consequences of the ownership and disposition of the common stock or ADSs under your own particular factual circumstances.

Russian Income and Withholding Tax Considerations

The Russian tax rules applicable to U.S. holders are characterized by significant uncertainties and by an absence of interpretive guidance. Russian tax authorities have not provided any guidance regarding the treatment of ADS arrangements, and there can be no certainty as to how the Russian tax authorities will ultimately treat those arrangements. In particular, it is unclear whether Russian tax authorities will treat U.S. holders as the beneficial owners of the underlying shares for the purposes of the United States-Russia income tax treaty. If the Russian tax authorities were not to treat U.S. holders as the beneficial owners of the underlying shares, then the benefits discussed below regarding the United States-Russia income tax treaty would not be available to U.S. holders. See "Item 3. Key Information—D. Risk Factors—Risks Relating to the Russian Legal System and Russian Legislation—You may not be able to benefit from the United States-Russia income tax treaty." Russian tax law and procedures are also not well developed, and local tax inspectors have considerable autonomy and often interpret tax rules without regard to the rule of law. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in jurisdictions with more developed capital markets.

Taxation of Dividends

Dividends paid to U.S. holders generally will be subject to Russian withholding tax at a 15% rate to 30% rate for individual holders. This tax may be reduced to 5% to 10% under the United States-Russia income tax treaty for U.S. holders. There is significant uncertainty, however, regarding the procedures and documentation required for claiming tax treaty benefits by non-resident legal entities as of January 1, 2002. U.S. holders wishing to claim treaty benefits with respect to dividends payments should provide the required documentation to us as soon as possible and in any event before the dividend payment date. These procedures are described in greater detail under "United States-Russia Income Tax Treaty Procedures" below.

If the appropriate documentation has not been provided to us before the dividend payment date, we are required to withhold tax at the full rate, and U.S. holders qualifying for a reduced rate under the United States-Russia income tax treaty then would be required to file claims for a refund within one to three years with the Russian tax authorities. There is significant uncertainty regarding the availability and timing of such refunds.

Taxation of Capital Gains

U.S. holders generally should not be subject to any Russian income or withholding taxes in connection with the sale, exchange, or other disposition of ADSs or common stock outside of Russia if the shares or ADSs are not sold to a Russian resident. Sales or other dispositions of ADSs or common stock to Russian residents, however, may be subject to Russian income or withholding taxes, and for such a sale by a U.S. holder, the Russian resident purchaser may be required to withhold 20% to 30% of any gain realized on the sale. Although the Russian tax rules provide for a procedure to determine a holder's tax basis for the purpose of determining taxable gain, there is some risk that in practice a Russian resident purchaser may withhold tax on the entire proceeds of the transaction. However, U.S. holders may be able to avoid Russian withholding tax on the disposition of common stock or ADSs to Russian residents, or obtain a refund of any withheld amounts, by relying on the United States-Russia income tax treaty and complying with the appropriate procedures described below.

United States-Russia Income Tax Treaty Procedures

Under current rules, to claim the benefit of a reduced rate of withholding under the United States-Russia income tax treaty, a non-resident generally must provide official certification from the U.S. tax authorities of eligibility for the treaty benefits, which certification must meet the requirements of Russian law.

The Russian tax authorities have not yet adopted regulations that detail the procedure for claiming tax treaty benefits.

In the United States, a U.S. holder may obtain the appropriate certification of eligibility for tax treaty benefits by mailing a letter requesting such certification, together with certain information, to: IRS—Philadelphia Service Center, Foreign Certification Request, P.O. Box 16347, Philadelphia, PA 19114-0447. The procedures for obtaining certification are described in greater detail in Internal Revenue Service Publication 686. Because obtaining this required certification from the Internal Revenue Service may take six to eight weeks, U.S. holders should apply for such certification as soon as possible within the relevant calendar year.

The depositary has no obligation to assist an ADS holder with the completion and filing of any tax forms.

After January 1, 2002, if a Russian resident withholds tax on capital gains or other amounts, U.S. holders, other than individuals, may apply for a tax refund by filing form No. 1011DT (2002) or form No. 1012DT (2002), which must be signed by the U.S. tax authorities, and certain other documents with

the Russian tax authorities. The filing for a tax refund should occur within three years following the end of the tax term during which the withholding occurred. However, procedures for processing such claims have not been fully established, and there is significant uncertainty regarding the availability and timing of such refunds. Individual holders may also apply for a tax refund, which filing should take place no later than one year following the end of the tax term during which the withholding occurred. There is even more uncertainty as for the procedure and practical availability of such refunds for individuals. It is also unclear whether U.S. holders are subject to the general rules applicable to tax refunds, whereby the holder would need to file for a tax refund pursuant to the time period requirements described in this paragraph, but no later than one month following the date on which such U.S. holder became aware of the withholding.

United States Federal Income Tax Considerations

The following is a general description of the material United States federal income tax consequences that apply to you if you are, for United States federal income tax purposes, a beneficial owner of ADSs or common stock who is a citizen or resident of the United States, a corporation (including any entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States or a political subdivision thereof, an estate the income of which is subject to U.S. tax regardless of its source, or a trust, if a United States court can exercise primary supervision over the administration of the trust and one or more United States persons can control all substantial trust decisions or, if the trust was in existence on August 20, 1996 and has properly elected to continue to be treated as a United States person. If a partnership (including any entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of ADSs or common stock, the United States federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Since your United States federal income and withholding tax treatment may vary depending upon your particular situation, you may be subject to special rules not discussed below. Special rules will apply, for example, if you are:

- an insurance company,
- a tax-exempt organization,
- a financial institution,
- a person subject to the alternative minimum tax,
- a person who is a broker-dealer in securities,
- an S corporation,
- an expatriate subject to Section 877 of the United States Internal Revenue Code,
- an owner of, directly, indirectly or by attribution, 10% or more of the outstanding shares of common stock, or
- an owner holding ADSs or common stock as part of a hedge, straddle, synthetic security or conversion transaction.

In addition, this summary is generally limited to persons holding common stock or ADSs as "capital assets" within the meaning of Section 1221 of the United States Internal Revenue Code and whose functional currency is the United States dollar. The discussion below also does not address the effect of any United States state or local tax law or foreign tax law.

For purposes of applying United States federal income and withholding tax law, a holder of an ADS will be treated as the owner of the underlying shares of common stock represented by that ADS.

Taxation of Dividends on Common Stock or ADSs

For United States federal income tax purposes, the gross amount of a distribution, including any Russian withholding taxes, with respect to common stock or ADSs will be treated as a taxable dividend to the extent of our current and accumulated earnings and profits, computed in accordance with United States federal income tax principles. Under recently enacted legislation, for taxable years beginning after December 31, 2002 and before January 1, 2009, if you are a non-corporate taxpayer such dividends may be taxed at the lower applicable capital gains rate provided certain holding period requirements are satisfied. Non-corporate U.S. holders are strongly urged to consult their own tax advisors as to the applicability of the lower capital gains rate to dividends received with respect to ADSs or shares of common stock. Distributions in excess of our current or accumulated earnings and profits will be applied against and will reduce your tax basis in common stock or ADSs and, to the extent in excess of such tax basis, will be treated as gain from a sale or exchange of such common stock or ADSs. You should be aware that we do not intend to calculate our earnings and profits for United States federal income tax purposes. If you are a corporation, you will not be allowed a deduction for dividends received in respect of distributions on common stock or ADSs, which is generally available for dividends paid by U.S. corporations.

If a dividend distribution is paid in rubles, the amount includible in income will be the U.S. dollar value of the dividend, calculated using the exchange rate in effect on the date the dividend is includible in income by you, regardless of whether the payment is actually converted into U.S. dollars. Any gain or loss resulting from currency exchange rate fluctuations during the period from the date the dividend is includible in your income to the date the rubles are converted into U.S. dollars will be treated as ordinary income or loss. You may be required to recognize foreign currency gain or loss on the receipt of a refund of Russian withholding tax pursuant to the United States-Russia income tax treaty to the extent the United States dollar value of the refund differs from the dollar equivalent of that amount on the date of receipt of the underlying dividend.

Russian withholding tax at the rate applicable to you under the United States-Russia income tax treaty will be treated as a foreign income tax that, subject to generally applicable limitations and conditions, is eligible for credit against your U.S. federal income tax liability or, at your election, may be deducted in computing taxable income. If Russian tax is withheld at a rate in excess of the rate applicable to you under the United States-Russia income tax treaty, you may not be entitled to credits for the excess amount, even though the procedures for claiming refunds and the practical likelihood that refunds will be made available in a timely fashion are uncertain.

A dividend distribution will be treated as foreign source income and will generally be classified as "passive income" or, in some cases, "financial services income" for United States foreign tax credit purposes. The rules relating to the determination of the foreign tax credit, or deduction in lieu of the foreign tax credit, are complex and you should consult your own tax advisors with respect to those rules.

Taxation on Sale or Exchange of Common Stock or ADSs

The sale of common stock or ADSs will generally result in the recognition of gain or loss in an amount equal to the difference between the amount realized on the sale and your adjusted basis in such common stock or ADSs. That gain or loss will be capital gain or loss if the common stock or ADSs are capital assets in your hands and will be long-term capital gain or loss if the common stock or ADSs have been held for more than one year. If you are an individual, such realized long-term capital gain is generally subject to a reduced rate of United States federal income tax. Limitations may apply to your ability to offset capital losses against ordinary income.

Deposits and withdrawals of common stock by you in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

If Russian tax is withheld on the sale of common stock or ADSs, you may not be entitled to credits for the amount withheld, even though the procedures for claiming refunds under the United States-Russia income tax treaty and the practical likelihood that refunds will be made available in a timely fashion are uncertain.

Information Reporting and Backup Withholding

Dividends and proceeds from the sale or other disposition of common stock or ADSs that are paid in the United States or by a U.S. related financial intermediary will be subject to U.S. information reporting rules and United States backup withholding tax, unless you are a corporation or other exempt recipient. In addition, you will not be subject to backup withholding if you provide your taxpayer identification number and certify that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding, but such holders may be required to provide certification as to their non-U.S. status.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

The documents that are exhibits to or incorporated by reference in this document can be read at the U.S. Securities and Exchange Commission's public reference facilities at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330 or, from outside the United States, at 1-202-942-8090. Copies may also be obtained from the SEC website at www.sec.gov. Information about Wimm-Bill-Dann Foods OJSC is also available on the web at www.wbd.com. Information included in our website does not form part of this document.

I. Subsidiary Information

Not applicable.

Item 11 Quantitative and Qualitative Disclosures about Market Risk

The following is a discussion of our market risk exposures from changes in both foreign currency exchange rates and interest rates.

We are exposed to market risk from changes in both foreign currency exchange rates and interest rates. Foreign currency exchange risks exist to the extent that our revenues are primarily denominated in Russian rubles and our costs are denominated in currencies other than Russian rubles. We are subject to market risk deriving from changes in interest rates on our floating and fixed rate debts which may affect the cost of our financing. We do not use financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks. We do not hold or issue derivatives or other financial instruments for trading purposes. We do not use derivatives or other financial instruments to limit our currency and interest rate risk exposures because the market for these types of financial instruments in Russia is not well developed and the costs of these instruments is relatively high. We are monitoring the market for these instruments and will consider their use if the related costs become lower.

Interest Rate Risk

The table below provides information about our fixed- and variable-rate borrowings.

Our interest rate exposure results mainly from debt obligations. At December 31, 2002, we had debt amounting to \$186.0 million, which comprised variable-rate borrowings of \$32.2 million and fixed-rate borrowings of \$153.9 million, including vendor financing obligations of \$68.9 million.

Our fixed-rate bank debt consists entirely of short-term bank obligations which we roll over on a continuous basis at current market rate and, thus, are able to manage our interest rate risk exposure.

We have not entered into transactions designed to hedge against interest rate risks, which may exist under our current, or future, indebtedness. Once the market in Russia for hedging instruments matures, we will assess our options for hedging interest rate risk and may enter into such arrangements.

The table below presents the principal cash flows and related weighted average interest rates, by expected maturity dates, of our variable and fixed-rate debt obligations as of December 31, 2002.

		Expected Maturity Date as of December 31,						Fair	Interest rates
Currency		2003	2004	2005	2006	2007 and thereafter	Total	value	at December 31, 2002
(in thousands of U.S. dollars)									
Variable-rate debt:									
International Moscow Bank	U.S. dollars	\$ 5,000	—	—	—	—	\$ 5,000	\$ 5,000	One month LIBOR + 5.40% (6.78%)
Commerzbank, line of credit	U.S. dollars	3,000	—	—	—	—	3,000	3,000	One month LIBOR + 5.25% (6.63%)
ING-Bank, line of credit	U.S. dollars	578	578	578	677	—	2,411	2,411	One month LIBOR + 1.75% (3.13%)
Moscow City Government	Rubles	1,793	—	—	—	—	1,793	1,774	¹ / ₃ of Central Bank of Russia rate (7.00%)
ING-Bank, line of credit	Euro	638	638	475	—	—	1,751	1,751	One month EURIBOR + 2.10% (5.00%)
ING-Bank, line of credit	U.S. dollars	173	173	173	218	—	737	737	One month LIBOR + 1.60% (3.03%)
Raiffeisenbank, line of credit	Euro	477	—	—	—	—	477	477	Three months LIBOR + 2.00% (4.36%)
Commerzbank, line of credit	Euro	121	121	86	—	—	328	328	EURIBOR + 2.00% (4.90%)
ING-Bank, line of credit	U.S. dollars	65	65	65	65	30	290	290	One month LIBOR + 1.60% (2.98%)
Bonds payable(1)	Rubles	15,731	—	—	—	—	15,731	15,731	18.00%
Bonds payable(2)	Som	365	—	—	—	—	365	365	18.00%
Other	Euro	290	—	—	—	—	290	290	Various interest rates
Total variable rate debt:		\$ 28,231	1,575	1,377	960	30	\$ 32,173	\$ 32,154	

Notes:

- In 2001, our subsidiary Lianozovo Dairy Plant issued unsecured ruble-denominated bonds. Interest is adjusted every quarter based on market rates and the Central Bank of Russia exchange rate. The interest rate was 18.00% for the period from November 1, 2002 to January 31, 2003. The bonds mature 1,093 days from November 1, 2001. LMK is obliged to redeem a bond if its holder notifies LMK of its intention to redeem the bond between October 10, 2003 and October 24, 2003.
- During 2001 and 2002, our subsidiary Bishkeksut issued unsecured Kyrgyz som-denominated bonds amounting to 40,000,000 Kyrgyz soms (\$0.4 million at December 31, 2002 exchange rate). For the period from December 1, 2002 to December 1, 2003 the interest rate is 18.00%.

We have not experienced significant changes in the market risks associated with our debt obligations in the table above subsequent to December 31, 2002, except for the issuance of 1.5 billion of ruble-denominated bonds on April 15, 2003 and our receipt of a \$150 million loan from UBS (Luxembourg) S.A. For a description of these transactions see "Item 8. Financial Information—B. Significant Changes."

Expected Maturity Date as of December 31,

	Currency	2003	2004	2005	2006	2007 and thereafter	Total	Fair value	Interest rates at December 31, 2002
(in thousands of U.S. dollars)									
Fixed-rate debt:									
Moscow Bank	Rubles	\$ 27,491	—	—	—	—	\$ 27,491	\$ 27,491	16.50%
Sberbank	Rubles	11,012	—	—	—	—	11,012	11,012	16.00%
Sberbank, lines of credit	Rubles	10,648	—	—	—	—	10,648	10,648	16.00%
Vneshtorgbank, line of credit	Rubles	6,292	—	—	—	—	6,292	6,292	18.00%
Moscow Business World Bank	Rubles	4,719	—	—	—	—	4,719	4,719	14.50%
Moscow Business World Bank	Rubles	4,600	—	—	—	—	4,600	4,600	18.00%
Citibank	Grivnas	3,308	—	—	—	—	3,308	3,308	22.00%
Moscow Business World Bank	Rubles	3,241	—	—	—	—	3,241	3,241	16.50%
International Moscow Bank	Rubles	3,146	—	—	—	—	3,146	3,146	16.50%
Alfa Bank, line of credit	Rubles	1,573	—	—	—	—	1,573	1,573	17.00%
Moscow Business World Bank	Rubles	1,573	—	—	—	—	1,573	1,573	16.00%
Yugbank, line of credit	Rubles	1,573	—	—	—	—	1,573	1,573	19.00%
Moscow City Government	Rubles	983	—	—	—	—	983	974	7.67%
Sberbank, line of credit	Rubles	953	—	—	—	—	953	953	16.00%
Citibank	Rubles	692	—	—	—	—	692	692	19.50%
Yugbank	Rubles	682	—	—	—	—	682	682	18.00%
Vendor financing	Euro	5,442	4,765	3,095	2,546	1,508	17,356	17,356	4.93%
Vendor financing	U.S. dollars	8,942	9,143	9,226	8,975	15,222	51,508	51,508	4.29%
Other	Various	2,516	—	—	—	—	2,516	2,516	18.91%
Total fixed rate debt:		\$ 99,386	13,908	12,321	11,521	16,730	\$ 153,866	\$ 153,857	

The carrying amounts of short-term loans approximate their fair values due to their short maturity. We believe that the carrying value of our long-term debt approximates its fair value.

Foreign Currency Risk

We are exposed to movements in the ruble and euro exchange rates relative to the U.S. dollar.

Our ruble-denominated monetary assets and liabilities at December 31, 2002 and 2001 are as follows:

	<u>2002</u>	<u>2001</u>
	(in thousands)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,247	\$ 5,823
Trade receivables, net	57,007	16,979
Taxes receivables	67,422	34,386
Net investment in direct finance leases	742	566
Deferred tax asset	522	—
Other current assets	3,655	3,432
Total current assets	139,595	61,186
NET INVESTMENT IN DIRECT FINANCE LEASES—long-term portion	1,556	725
OTHER ASSETS	388	339
CURRENT LIABILITIES:		
Trade accounts payable	14,262	14,708
Advances received	3,852	1,976
Short-term loans	81,524	68,938
Bonds payable	15,731	16,589
Long-term loans, current portion	326	919
Taxes payable	15,279	13,528
Accrued liabilities	6,947	8,534
Other payables	9,473	4,799
Total current liabilities	147,394	129,991
LONG-TERM LIABILITIES:		
Long-term loans	—	1,966
Other payables	568	664
Total long-term liabilities	568	2,630
Net ruble denominated monetary liabilities	\$ 6,424	\$ 70,371

Short-term loans of \$81.5 million in the table above are due at various dates within a year from December 31, 2002. Other long-term payables are primarily due before December 31, 2004.

Our euro-denominated monetary assets and liabilities at December 31, 2002 and 2001 were as follows:

	2002	2001
	(in thousands)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,449	\$ 310
Trade receivables, net	190	19
Taxes receivables	289	—
Other current assets	422	—
Total current assets	4,350	329
CURRENT LIABILITIES:		
Trade accounts payable	12,444	10,423
Short-term loans	98	854
Long-term loans, current portion	1,424	1,661
Taxes payable	83	675
Accrued liabilities	43	—
Other payables	5,495	845
Total current liabilities	19,587	14,458
LONG-TERM LIABILITIES:		
Long-term loans	1,321	2,074
Other payables	11,913	2,720
Total long-term liabilities	13,234	4,794
Net euro-denominated monetary liabilities	\$ 28,471	\$ 18,923

A short-term loan of \$0.1 million, in the table above, is due in January 2003. Long-term loans, excluding the current portion, are primarily due before December 31, 2005, and other long-term payables are primarily due before December 31, 2007.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and short-term loans reported in the consolidated and combined balance sheet approximate their fair values due to the short maturity of those instruments. We believe that the carrying value of our long-term debt approximates its fair value.

Generally, as the value of the ruble declines against the U.S. dollar, net ruble monetary liability positions result in currency remeasurement gains and net ruble monetary asset positions result in currency remeasurement losses. As the value of the euro strengthens against the U.S. dollar, net euro monetary liability positions result in currency remeasurement losses and net euro monetary asset positions result in currency remeasurement gains. Our net ruble monetary liability position decreased from \$70.4 million at December 31, 2001 to \$6.4 million at December 31, 2002 and during 2002 the ruble declined against the U.S. dollar. Our net euro monetary liability position increased from \$18.9 million at December 31, 2001 to \$28.5 million at December 31, 2002 and the euro strengthened against the U.S. dollar. As a result of the combination of our monetary positions in rubles and euro and exchange rate fluctuations in the year ended December 31, 2002, we recognized a currency remeasurement loss of \$2.9 million. As a result of the combination of our monetary positions in rubles and euro and exchange rate fluctuations in the year ended December 31, 2001, we recognized a currency remeasurement gain of \$2.5 million. Currency remeasurement gains and losses were reflected in our consolidated and combined statements of operations.

As of January 1, 2003, Russia no longer meets the U.S. GAAP definition of a hyperinflationary economy. Therefore, from this date, our financial statements will be prepared using the local currency, the ruble, as the functional currency for WBD Foods' Russian subsidiaries. Therefore, our future currency remeasurement gains and losses will be a result of the combination of our monetary positions

in U.S. dollars and euro and exchange rate fluctuations between the ruble and the U.S. dollar and between the ruble and the euro. The potential impact of such a change on our financial position and results of operations cannot be estimated.

Our U.S. dollar-denominated monetary assets and liabilities at December 31, 2002 and 2001 were as follows:

	2002	2001
	(in thousands)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 15,476	\$ 721
Trade receivables, net	614	8,103
Taxes receivables	—	518
Net investments in direct finance leases	595	606
Deferred tax asset	240	—
Other current assets	396	511
Total current assets	17,321	10,459
NET INVESTMENTS IN DIRECT FINANCE LEASES—long term portion	2,826	3,351
CURRENT LIABILITIES:		
Trade accounts payable	11,814	23,479
Advances received	31	112
Short-term loans	8,000	22,137
Long-term loans, current portion	815	5,519
Taxes payable	12	76
Accrued liabilities	1,071	495
Other payables	9,244	4,385
Total current liabilities	30,987	56,203
LONG-TERM LIABILITIES:		
Long-term loans	3,143	1,118
Other payables	42,566	14,602
Total long-term liabilities	45,709	15,720
Net U.S. dollar-denominated monetary liabilities	\$ 56,549	\$ 58,113

Short-term loans of \$8.0 million, in the table above, are due between August and November 2003. Long-term loans, excluding the current portion, are due before December 31, 2006. Other long-term payables are primarily due before September 30, 2011.

See also "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Exchange Rates and Inflation."

Item 12 Description of Securities Other than Equity Securities

Not applicable.

PART II

Item 13 Defaults, Dividend Arrearages and Delinquencies

None.

Item 14 Material Modifications to the Rights of Security Holders and Use of Proceeds

B. Use of Proceeds

On January 16, 2002, we filed a registration statement on Form F-1 (Registration No. 333-14278) under the Securities Act of 1933, as amended, with the Commission with respect to our initial public offering. The Registration Statement was declared effective on February 7, 2002, and the offering was completed on February 12, 2002. All of the 7,480,000 ADSs offered by us pursuant to the offering at an initial offering price of \$19.50 per ADS were sold for a total of \$145.9 million. The underwriters purchased an additional 1,520,000 ADSs from us at the offering at the price of \$19.50 per ADS for a total of \$29.6 million. The underwriters of the offering were ING Barings Limited (as an agent for ING Bank, N.V., London branch), Credit Suisse First Boston (Europe) Limited, J.P. Morgan Securities Ltd., Renaissance Capital Investments (Cyprus) Limited and Salomon Brothers International Ltd. The net proceeds we received from the offering was approximately \$161.7 million, after deducting an estimated \$8.8 million in underwriting discounts and commissions and an estimated \$5 million in regulatory, legal, accounting and other miscellaneous fees and expenses.

During 2002, we used approximately \$161.7 million of our net proceeds for the following purposes:

Use	Approximate Amount
Capital expenditures, including the purchase of dairy and juice equipment and acquisitions of additional plants	\$ 107.7 million
Retirement of portions of our current short-term and long-term debt	\$ 45.0 million
General corporate purposes, such as working capital	\$ 9.0 million
Total:	\$ 161.7 million

Item 15 Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Within 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in timely identifying material information potentially required to be included in the Company's SEC filings.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation.

Item 16 Not Applicable.

PART III

Item 17 Financial Statements

See instead Item 18.

Item 18 Financial Statements

See pages F-1 through F-49.

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- (1) The referenced audit report of Arthur Andersen ZAO, our former independent public accountants, is included in this offering memorandum solely for the purpose of including the opinion of Arthur Andersen ZAO on our financial statements for the years ended December 31, 2000 and 2001. Our financial statements for the fiscal year ended December 31, 2002 have been audited by and are reported on by Ernst and Young (CIS) Limited under the heading "Independent Auditors' Report" on page F-2 below. The Report of Independent Public Accountants set forth on page F-3 below is a copy of the original audit report dated April 15, 2002 rendered by Arthur Andersen ZAO that was included in our Annual Report on Form 20-F filed on June 28, 2002, and has not been reissued by Arthur Andersen ZAO since April 15, 2002.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Wimm-Bill-Dann Foods

We have audited the accompanying consolidated balance sheet of Wimm-Bill-Dann Foods, a Russian Open Joint Stock Company ("the Company"), as of December 31, 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated and combined financial statements of Wimm-Bill-Dann Foods as of December 31, 2001 and 2000 and for the years then ended, were audited by other auditors who have ceased operations and whose report dated April 15, 2002, expressed an unqualified opinion on those statements.

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

In our opinion, the 2002 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wimm-Bill-Dann Foods as of December 31, 2002 and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG (CIS) LIMITED

Moscow, Russia
March 17, 2003



*This report is a copy of the previously issued Arthur Andersen ZAO report.
Arthur Andersen ZAO has not reissued this report nor consented to its inclusion herein.*

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Wimm-Bill-Dann Foods:

We have audited the accompanying consolidated and combined balance sheets of Wimm-Bill-Dann Foods, a Russian Open Joint Stock Company, and its subsidiaries ("the Group") as of December 31, 2000 and 2001 and the related consolidated and combined statements of operations, cash flows and shareholders' equity for the years ended December 31, 1999, 2000 and 2001. These consolidated and combined financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated and combined financial statements based on our audits.

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

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of Wimm-Bill-Dann Foods and its subsidiaries as of December 31, 2000 and 2001 and the results of their operations and their cash flows for the years ended December 31, 1999, 2000 and 2001 in conformity with accounting principles generally accepted in the United States.

A handwritten signature in black ink that reads "Arthur Andersen ZAO".

Moscow, Russia
April 15, 2002

WIMM-BILL-DANN FOODS
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2002 AND 2001

(Amounts in thousands of U.S. dollars)

	<u>2002</u>	<u>2001</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 6)	\$ 29,340	\$ 6,919
Trade receivables, net (Note 7)	60,146	25,271
Inventory, net (Note 8)	86,063	89,501
Taxes receivable	68,352	34,917
Advances paid	10,811	13,069
Net investment in direct financing leases (Note 9)	1,338	1,172
Deferred tax asset (Note 19)	1,850	2,060
Other current assets	5,810	7,355
Total current assets	<u>263,710</u>	<u>180,264</u>
PROPERTY, PLANT AND EQUIPMENT, net (Note 11)	293,580	154,548
INTANGIBLE ASSETS, net (Note 10)	2,736	461
GOODWILL (Note 12)	19,885	11,179
NET INVESTMENT IN DIRECT FINANCING LEASES—long-term portion (Note 9)	4,381	4,076
LONG-TERM INVESTMENTS (Note 13)	1,989	1,850
OTHER ASSETS (Note 14)	<u>2,812</u>	<u>339</u>
Total long-term assets	<u>325,383</u>	<u>172,453</u>
Total assets	<u>\$ 589,093</u>	<u>\$ 352,717</u>

The accompanying notes are an integral part of these statements.

WIMM-BILL-DANN FOODS

**CONSOLIDATED BALANCE SHEETS
 AS OF DECEMBER 31, 2002 AND 2001**

(Amounts in thousands of U.S. dollars, except share amounts)

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>2002</u>	<u>2001</u>
CURRENT LIABILITIES:		
Trade accounts payable	\$ 40,144	\$ 48,610
Advances received	3,905	2,088
Short-term loans (Note 16)	94,050	91,928
Long-term loans, current portion (Note 16)	2,483	8,099
Bonds payable (Note 17)	16,096	16,832
Taxes payable	15,551	14,279
Accrued liabilities (Note 15)	8,346	9,098
Government grants—current portion (Note 20)	2,033	2,545
Other payables (Note 18)	25,770	10,425
Total current liabilities	208,378	203,904
LONG-TERM LIABILITIES:		
Long-term loans (Note 16)	4,546	5,163
Government grants—long-term portion (Note 20)	8,568	13,348
Deferred taxes (Note 19)	8,121	3,929
Other long-term payables (Note 18)	55,047	17,986
Total long-term liabilities	76,282	40,426
Total liabilities	284,660	244,330
COMMITMENTS AND CONTINGENCIES (Note 30)		
MINORITY INTEREST (Note 22)	21,549	23,376
SHAREHOLDERS' EQUITY (Note 21):		
Common stock: 44,000,000 shares authorized, issued and outstanding with a par value of 20 rubles at December 31, 2002, and 44,000,000 shares authorized and 35,000,000 shares issued and outstanding at December 31, 2001	29,908	24,063
Share premium account	164,132	7,850
Retained earnings	88,844	53,098
Total shareholders' equity	282,884	85,011
Total liabilities and shareholders' equity	\$ 589,093	\$ 352,717

The accompanying notes are an integral part of these statements.

WIMM-BILL-DANN FOODS

**CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS
 FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000**

(Amounts in thousands of U.S. dollars, except share and per share data)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
SALES (Note 28)	\$ 824,734	\$ 674,616	\$ 465,411
COST OF SALES (Note 23)	(579,707)	(492,990)	(349,077)
Gross profit	245,027	181,626	116,334
SELLING AND DISTRIBUTION EXPENSES (Note 24)	(109,527)	(62,213)	(34,138)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 25)	(62,955)	(54,461)	(43,025)
OTHER OPERATING EXPENSES	(6,497)	(4,498)	(1,241)
Operating income	66,048	60,454	37,930
FINANCIAL INCOME AND EXPENSES, NET (Note 26)	(14,131)	(10,581)	(5,664)
Income before provision for income taxes and minority interest	51,917	49,873	32,266
PROVISION FOR INCOME TAXES (Note 19)	(14,249)	(14,166)	(9,568)
MINORITY INTEREST (Note 22)	(1,922)	(3,962)	(1,453)
INCOME FROM CONTINUING OPERATIONS	35,746	31,745	21,245
Income from discontinued operations, net of income tax expense of \$386 and \$370, respectively (Note 5)	—	103	138
NET INCOME	\$ 35,746	\$ 31,848	\$ 21,383
Weighted average number of shares outstanding	43,063,014	34,888,000	34,552,000
Earnings per share—basic and diluted:			
Income from continuing operations	\$ 0.83	\$ 0.91	\$ 0.62
Income from discontinued operations	—	0.00	0.00
Net income	\$ 0.83	\$ 0.91	\$ 0.62

The accompanying notes are an integral part of these statements.

WIMM-BILL-DANN FOODS

**CONSOLIDATED AND COMBINED CASH FLOW STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000**

(Amounts in thousands of U.S. dollars)

	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income from continuing operations	\$ 35,746	\$ 31,745	\$ 21,245
Adjustments to reconcile income to net cash provided by operating activities:			
Minority interest	1,922	3,962	1,453
Depreciation	18,447	12,225	8,903
Amortization of intangible assets	164	42	38
Amortization of goodwill	—	455	25
Currency remeasurement gain relating to bonds payable	(1,295)	(257)	—
Finance lease expense	—	50	96
Provision for obsolete inventory	1,154	182	(427)
Provision for doubtful accounts	1,970	226	139
Loss on disposal of property, plant and equipment	606	341	168
Earned income on net investments in direct financing leases	(395)	(561)	(519)
Deferred tax expense (benefit)	38	2,173	(88)
Currency remeasurement loss relating to cash and cash equivalents	639	300	109
Non-cash rental received	1,606	1,621	949
Unrealized holding gain for trading securities	(742)	(318)	—
Write off of net investment in direct financing leases	162	288	—
Write off of trade receivables	1,262	—	—
Changes in operating assets and liabilities:			
Decrease (increase) in inventories	5,194	(30,296)	(4,317)
Increase in trade accounts receivable	(34,893)	(14,107)	(3,801)
Decrease (increase) in advances paid	3,189	(5,434)	(3,886)
Increase in taxes receivable	(32,880)	(13,885)	(7,221)
Decrease (increase) in other current assets	2,782	(3,285)	(2,045)
(Decrease) increase in trade accounts payable	(13,279)	9,377	4,473
Increase (decrease) in advances received	1,390	(306)	275
Increase (decrease) in taxes payable	1,028	5,356	(822)
(Decrease) increase in accrued liabilities	(1,081)	1,326	1,390
Increase in other current payables	619	5,216	773
(Decrease) increase in other long-term payables	(216)	6,155	(139)
Net cash (used in) provided by operating activities associated with continuing operations	(6,863)	12,591	16,771
Net income from discontinued operations	—	103	138
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Minority interest	—	(96)	(108)
Depreciation	—	97	402
Amortization of goodwill	—	(38)	(594)
Allowance for doubtful accounts	—	(89)	356
Deferred tax expense (benefit)	—	247	(360)
Currency remeasurement loss relating to cash and cash equivalents	—	212	415
Net change in operating assets and liabilities—the Breweries (Note 5)	—	(276)	163
Net change in operating assets and liabilities—Expobank (Note 5)	—	(12,628)	13,978
Net cash (used in) provided by operating activities associated with discontinued operations	—	(12,468)	14,390
Total net cash (used in) provided by operating activities	(6,863)	123	31,161

The accompanying notes to financial statements are an integral part of these statements.

WIMM-BILL-DANN FOODS

**CONSOLIDATED AND COMBINED CASH FLOW STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000**

(Amounts in thousands of U.S. dollars)

	2002	2001	2000
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash paid for acquisitions of subsidiaries, net of cash acquired	\$ (39,571)	\$ (8,855)	\$ (4,361)
Cash paid for acquisitions of property, plant and equipment	(78,505)	(45,417)	(17,551)
Cash paid for net investments in direct financing leases	(1,843)	(855)	(1,857)
Cash paid for acquisitions of investments	(285)	(145)	—
Proceeds from disposal of investments	—	137	—
Cash paid for other long-term assets	(2,473)	(351)	(4,003)
Net cash used in investing activities associated with continuing operations	(122,677)	(55,486)	(27,772)
Acquisition of discontinued operations (Note 5)	—	—	(7,492)
Purchase of property, plant and equipment—the Breweries	—	(322)	—
Purchase of property and equipment—Expobank	—	(30)	(802)
Net cash used in investing activities associated with discontinued operations	—	(352)	(8,294)
Total cash used in investing activities	(122,677)	(55,838)	(36,066)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of capital stock, net of direct expenses	162,127	—	—
Increase in short-term loans	771	32,232	24,268
Proceeds from long-term loans	4,226	4,695	10,572
Repayment of long-term loans	(9,930)	(2,475)	(554)
Repayment of vendors financing obligations	(5,058)	(5,909)	(2,632)
Proceeds from bonds payable	559	16,832	—
Repayment of obligations under capital leases	(95)	(762)	(744)
Dividends paid	—	—	(9,329)
Net cash provided by financing activities associated with continuing operations	152,600	44,613	21,581
Increase in short-term loans—the Breweries	—	721	—
Cash disposed of with discontinued operations	—	(5,175)	—
Net cash used in financing activities associated with discontinued operations	—	(4,454)	—
Total cash provided by financing activities	152,600	40,159	21,581
Total cash provided by operating, investing and financing activities associated with continuing operations	23,060	1,718	10,580
Impact of exchange rate differences on cash and cash equivalents associated with continuing operations	(639)	(300)	(109)
Cash paid for acquisition of discontinued operations	—	—	(7,492)
Net increase in cash and cash equivalents associated with continuing operations	22,421	1,418	2,979

The accompanying notes to financial statements are an integral part of these statements.

WIMM-BILL-DANN FOODS

**CONSOLIDATED AND COMBINED CASH FLOW STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000**

(Amounts in thousands of U.S. dollars)

	2002	2001	2000
Total cash (used in) provided by operating, investing and financing activities associated with discontinued operations	—	(17,274)	6,096
Cash paid for acquisition of discontinued operations	—	—	7,492
Impact of exchange rate differences on cash and cash equivalents associated with discontinued operations	—	(212)	(415)
Net (decrease) increase in cash and cash equivalents associated with discontinued operations	—	(17,486)	13,173
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	22,421	(16,068)	16,152
CASH AND CASH EQUIVALENTS, at beginning of period	6,919	22,987	6,835
Cash and cash equivalents associated with continuing operations, at end of period	29,340	6,919	5,501
Cash and cash equivalents associated with discontinued operations, at end of period	—	—	17,486
CASH AND CASH EQUIVALENTS, at end of period	\$ 29,340	\$ 6,919	\$ 22,987
SUPPLEMENTAL INFORMATION ASSOCIATED WITH CONTINUING OPERATIONS:			
Income taxes paid	\$ 13,081	\$ 3,073	\$ 3,161
Interest paid	14,261	10,769	5,281
Income taxes offset with VAT receivables	2,437	2,752	1,416
Taxes other than income taxes offset with VAT receivables	1,601	2,087	303
Vendor financed acquisitions of property, plant and equipment	51,957	23,586	2,211

The accompanying notes are an integral part of these statements.

WIMM-BILL-DANN FOODS

**CONSOLIDATED AND COMBINED STATEMENTS OF SHAREHOLDERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000**

(Amounts in thousands of U.S. dollars, except share amounts)

	Common Stock (Note 1)		Share Premium Account	Retained Earnings	Total
	Shares	Amount			
BALANCES at December 31, 1999	34,552,000	\$ 23,755	\$ —	\$ 17,898	\$ 41,653
Net income	—	—	—	21,383	21,383
Dividends declared	—	—	—	(9,330)	(9,330)
BALANCES at December 31, 2000	34,552,000	23,755	—	29,951	53,706
Issue of shares (Note 4)	448,000	308	7,850	—	8,158
Net income	—	—	—	31,848	31,848
Distribution to shareholders (Note 5)	—	—	—	(8,701)	(8,701)
BALANCES at December 31, 2001	35,000,000	24,063	7,850	53,098	85,011
Issue of shares (Note 21)	9,000,000	5,845	156,282	—	162,127
Net income	—	—	—	35,746	35,746
BALANCES at December 31, 2002	44,000,000	\$ 29,908	\$ 164,132	\$ 88,844	\$ 282,884

The dividends shown above are the dividend payments made by subsidiaries of Wimm-Bill-Dann Foods when they were separate legal entities and before the formation of Wimm-Bill-Dann Foods. Consequently, those dividends were determined based on the results of the individual entities and the ownership interest in those entities and not on the share capital of Wimm-Bill-Dann Foods. Wimm-Bill-Dann Foods has not paid any dividends for any of the periods presented.

For the years ended December 31, 2002, 2001 and 2000 comprehensive income equaled net income.

The accompanying notes are an integral part of these statements.

WIMM-BILL-DANN FOODS

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2002 AND 2001 AND FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

(Amounts in thousands of U.S. dollars, except where otherwise indicated)

1. The Company

Wimm-Bill-Dann Foods ("WBD Foods" or "the Company") is an open joint stock company registered in Russia. It is a holding company which, as at December 31, 2002, owned controlling interests in 23 manufacturing facilities in 19 locations in Russia and the Commonwealth of Independent States ("CIS"), as well as distribution centers in 26 cities in Russia and abroad ("the Group"). WBD Foods has a strong and diversified branded portfolio with over 1,100 types of dairy products and over 170 types of juice, nectars and still drinks.

The Group was formed as follows:

On April 16, 2001, Wimm-Bill-Dann Foods LLC ("WBD Foods LLC") was formed by a group of individual shareholders who owned shares in Lianozovo Dairy ("LMK"), PAG Rodnik ("Rodnik") and various juice production companies.

The shares of LMK and Rodnik were exchanged for an ownership interest in WBD Foods LLC and as a result WBD Foods LLC became the majority shareholder of LMK and Rodnik.

Subsequent to the exchange, in October and December 2001, the juice production business, owned by the same group of shareholders described above, was transferred to Fruit Rivers LLC.

Prior to WBD Foods LLC exchanging for shares of participation to acquire LMK and Rodnik and the transfer of the juice production companies, these companies were under the common control of a control group, being a group of shareholders who were shareholders in each of the above named entities, who held a majority of the shares of each of the above entities, and who were contractually bound by a pre-existing written agreement entered into in 1997, to vote as a single unit all of their shares.

As a consequence of the above exchange, those shareholders in each of the above named entities who were members of the control group, became the holders of all of the ownership interests of WBD Foods LLC.

Certain shareholders in each of the above named companies were not members of the control group and WBD Foods LLC did not give any shares of participation to them in exchange for their interest in the above named companies. Consequently, those shareholders outside of the control group retained a minority interest in certain entities controlled by WBD Foods LLC.

The acquisition by WBD Foods LLC of LMK and Rodnik, therefore, represents a reorganization under common control, and has been accounted for, for the periods presented, in a manner similar to a pooling of interests. The financial statements, therefore, have been prepared on the basis that WBD Foods LLC existed for all of the periods presented and was the majority shareholder of the underlying entities named above for all the periods presented.

At the same time as WBD Foods LLC acquired the control group's interest in LMK and Rodnik for shares of participation, an additional share of participation in WBD Foods LLC was exchanged for additional shares in Tsaritsino Dairy, a subsidiary of LMK. That exchange has been accounted for as an acquisition of a minority interest in 2001.

On May 31, 2001, WBD Foods LLC was restructured into an open joint stock company and named Wimm-Bill-Dann Foods. For all periods up to May 31, 2001, earnings per share were based on

34,552,000 shares, being the number of shares issued to the members of the control group upon the restructuring of WBD Foods LLC, and that number of shares has been treated as outstanding for all these periods.

2. Russian Environment and Current Economic Situation

The Russian economy while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

3. Summary of Significant Accounting Policies

Accounting Principles

All companies of the Group maintain their accounting books and records in domestic currency based on domestic accounting regulations. The consolidated and combined financial statements have been prepared in order to present WBD Foods' consolidated financial position, results of operations, and cash flows in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and expressed in terms of U.S. dollars (see paragraph "Translation Methodology" below).

Principles of Consolidation

The consolidated and combined financial statements of the Company include the accounts of WBD Foods and its subsidiaries that were controlled by the control group of shareholders before reorganization and are controlled by WBD Foods after reorganization (see Note 1 for description of reorganization). This control is determined when the control group of shareholders (before reorganization) or WBD Foods (after reorganization) own, either directly or indirectly, more than 50% of the voting rights of a company's share capital and are able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The purchase method of accounting is used for acquired businesses. Companies acquired or disposed of during the year are included in the consolidated and combined financial statements from the date of acquisition or to the date of disposal.

All significant intercompany balances and transactions have been eliminated in consolidation.

Minority interests in the net assets and net results of companies within the Group are shown under "Minority interests" in the accompanying consolidated and combined balance sheets and statements of operations.

Translation Methodology

The consolidated and combined financial statements have been prepared using a stable currency, the U.S. dollar, as the majority of the Company's operations are in hyperinflationary economies. In respect of Wimm-Bill-Dann Netherlands B.V. and Wimm Bill Dann (Israel) Limited, the U.S. dollar has been used to prepare the financial statements as this is their functional currency. The financial statements of Kiev Dairy Plant ("KMMZ") and Kharkov Dairy Plant (Ukraine) have been prepared

using the Ukrainian grivna as the functional currency. Translation (remeasurement) of domestic currency denominated financial statements into U.S. dollars has been performed in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign currency translation". The objective of this remeasurement process is to produce the same results that would have been reported if the accounting records had been kept in U.S. dollars.

For entities operating in hyperinflationary economies, monetary assets and liabilities have been translated at the period-end exchange rate. Non-monetary assets and liabilities have been translated at historical rates. Share capital has been translated at the date of registration of WBD Foods and on the dates of additional share issues (see Note 1). Revenues, expenses and cash flows have been translated at the dates of respective transactions. Remeasurement differences resulting from the use of these rates have been accounted for as currency remeasurement gains and losses in the accompanying consolidated and combined statements of operations.

The Company's principle future operating cash flows will be generated in Russian rubles. As a result, future movements in the exchange rate between the ruble and U.S. dollar will affect the carrying value of the Company's assets and liabilities. Such changes may also affect the Company's ability to realize assets as represented in terms of U.S. dollars in the accompanying consolidated and combined financial statements.

Starting from January 1, 2003 Russia is no longer considered a hyperinflationary economy. Therefore, financial statements will be prepared using the local currency, the Russian ruble, as a functional currency for WBD Foods' Russian subsidiaries. Subsequent translation to reporting currency, the U.S. dollar, will be made in accordance with SFAS No. 52.

Management Estimates

The preparation of the consolidated and combined financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated and combined financial statements and the reported amounts of revenues and expenses during the reporting period. Examples include estimates of provisions for bad and doubtful accounts, obsolete inventory, and valuation allowance for deferred tax assets. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and in the Company's bank accounts and short-term investments having original maturities of less than three months.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated at their net realizable value which approximates their fair value.

The Company provides an allowance for doubtful accounts based on management's periodic review of accounts, including the delinquency of account balances. Delinquency status is based on contractual terms. The Company evaluates the collectibility of its receivables at least quarterly, based upon various factors, including the financial condition and payment history of major customers, an overall review of collections experience of other accounts and economic factors or events expected to affect the

Company's future collections. Trade receivables are written-off when evidence exists that they will not be collectible. The Company generally does not require collateral from its credit customers.

Inventory

Inventories, including work-in-process, are valued at the lower of cost or market, after the reserve for excess and obsolete items. Cost is the price paid or the consideration given to acquire the asset. Cost is determined on the basis of weighted average cost. For processed inventories, cost is the sum of the expenditures and charges, direct and indirect, in bringing goods to their existing conditions or location. It includes the applicable allocation of production fixed and variable overhead costs. Market is the current replacement cost, whether by purchase or by reproduction, limited to the estimated selling price less any costs of completion and disposal (net realizable value) at the maximum level, and net realizable value, less an allowance for normal profit at the minimum level. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing, and distribution. Unrealizable inventory is fully written off.

Value-Added Taxes

Value-added taxes ("VAT") related to sales are payable based upon invoices issued to the customer or collection of respective receivables. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales.

VAT related to purchase transactions that are subject to offset against taxes payable after the balance sheet dates are recognized in the balance sheets on a gross basis.

Property, Plant and Equipment

Property, plant and equipment are stated at historic acquisition cost, less accumulated depreciation.

The acquisition cost of property, plant and equipment comprise its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance costs, are normally expensed in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in other operating expenses of the consolidated and combined statement of operations.

The carrying value of property, plant and equipment, as determined above, less expected residual value, is depreciated on a straight-line basis over the estimated useful lives of the related assets. The following estimated useful lives have been applied:

Buildings	50 years
Machinery and equipment	8–20 years
Computer hardware	3–5 years
Other	5–10 years

Construction in progress comprises costs directly related to construction of property, plant and equipment plus an appropriate allocation of variable and fixed overheads that are incurred in construction. Construction in progress is depreciated once the property, plant and equipment are put into operation.

The Company capitalizes interest costs with respect to qualifying construction projects.

Impairment of Long-Lived Assets

When events and circumstances occur indicating that the carrying amount of a long-lived asset (group) may not be recoverable, the Company estimates the future undiscounted cash flows expected to derive from the use and eventual disposition of the asset (group). If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the long-lived asset (group), the Company would then calculate the impairment as the excess of the carrying value of the asset (group) over the estimate of its fair market value.

Capital Leases—Lessee's Accounting

At the inception of the lease, the Company recognizes capital leases as assets and liabilities in the balance sheet at amounts equal to the fair value of the leased property or, if lower, the present value of the future minimum lease payments. In calculating the present value of the future minimum lease payments the discount factor used is the interest rate implicit in the lease when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A capital lease gives rise to depreciation expense for the asset (included in depreciation expense) as well as a finance expense (included in financial income and expenses, net) for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned.

Capital Leases—Lessor' Accounting

The Company presents assets leased as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net

investment outstanding and included in other operating expenses. Initial direct costs are deferred and expensed over the period in which the related revenue is recognized.

Intangible assets

Intangible assets with determinable useful lives are amortized using the straight-line method over their estimated period of benefit, ranging from two to fifteen years. Indefinite-lived intangibles are evaluated annually for impairment or when indicators exist indicating such assets may be impaired, such determination of fair value being based on a valuation model that incorporates expected future cash flows and profitability projections.

Goodwill

Goodwill represents the purchase price for businesses acquired in excess of the fair value of identifiable net assets acquired. Starting from January 1, 2002 with the adoption of SFAS 142, "Goodwill and Other Intangible Assets", goodwill is no longer amortized, but instead tested for impairment at least annually or whenever indicators of impairment arise. In 2000 and 2001 for acquisitions made before June 30, 2001, goodwill was amortized using the straight-line method over fifteen years.

In cases where the fair value of the net assets acquired exceed the purchase price, that excess (negative goodwill) is allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired assets excluding financial assets other than investments accounted for by the equity method, assets to be disposed of by sale, deferred tax assets and any other current assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess is recognised as an extraordinary gain in the period in which the business combination is completed.

Investments

WBD Foods holds interests in several Russian legal entities which are valued at cost and are not readily marketable securities (see Note 13). Management periodically assesses the realizability of the carrying values of the investments and provides valuation reserves, if required. Investments classified as trading securities are valued at fair value and are classified as other current assets.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

Sales are recognized, net of VAT and discounts, when goods are shipped to customers. At the time of shipment, in accordance with the Company's standard sales agreements, the title is transferred and the customer assumes the risk and rewards of ownership. This policy is consistent with the Russian Civil Code which states that legal title transfers when a products is shipped to a customer unless specifically overridden by the sales agreement.

The Company offers sales volume discounts based on individual customer volumes acquired in a previous month. An accrual for such discounts is made at the end of each accounting period and is recognized as a reduction of revenue in the consolidated and combined statement of operations.

Shipping and Handling Costs

Shipping and handling costs incurred by the Company are reflected in sales and distribution expenses in the accompanying consolidated and combined statement of operations.

Government Grants

Government grants are recognized when the related cash or assets are received. Government grants are deferred and amortized to income over the period necessary to match them with the related costs that they are intended to compensate. Grants received are treated as deferred income in the accompanying consolidated and combined financial statements. The amortization of government grants related to acquisition of property, plant and equipment is recognized in cost of sales when depreciation expense of the related long-term assets is recognized. Interest expense incurred in government grant loan programs is recognized in financial income and expenses, net.

Taxation

Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and loss or tax credit carryforwards using enacted tax rates expected to be in effect at the time these differences are realized. Valuation allowances are recorded for deferred tax assets where it is unlikely that such assets will be realized. In accordance with SFAS No. 109, "Accounting for income taxes", the Company does not recognize deferred taxes for differences between the domestic currency equivalent of U.S. dollar cost and domestic tax basis of nonmonetary assets and for the difference that results from indexing of nonmonetary assets for tax purposes as the U.S. dollar is the functional currency.

Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred. Advertising costs for the years ended December 31, 2002, 2001 and 2000 were \$32,355, \$18,263 and \$12,804, respectively, and are reflected as a component of selling and distribution expenses in the accompanying consolidated and combined statements of operations (see Note 24).

Earnings per Share

Earnings per common share for 2000 have been determined using the number of WBD Foods' shares issued on May 31, 2001, to the members of the control group. Earnings per common share for 2001 and 2002 have been determined based upon the weighted average number of shares outstanding during these periods. There are no potentially dilutive securities.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and short-term loans reported in the consolidated and combined balance sheets approximate fair values due to the short maturity of those instruments. Management is of the opinion that the carrying value of the Company's long-term loans approximates fair value.

Research and Development Costs

Research and development costs are expensed as incurred. The Company incurred \$930, \$519 and \$407 of such costs during the years ended December 31, 2002, 2001 and 2000, respectively.

Segment Reporting

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", requires that a business enterprise reports financial and descriptive information about its reportable operating segments. WBD Foods currently manages its business as two major operating segments—dairy and juice production and distribution, and accordingly, reports segmental information on this basis.

Reclassifications

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year. Such reclassifications had no impact on net income or shareholders' equity.

New Accounting Pronouncements

During 2001 the Financial Accounting Standards Board issued several new accounting standards, including SFAS No. 141, "Business Combinations", SFAS No. 142, "Goodwill and Other Intangible Assets", SFAS No. 143, "Accounting for Asset Retirement Obligations", SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".

Under the new rules of SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests. Other intangible assets continue to be amortized over their useful lives. Impairment losses that arise due to the initial application of this standard are reported as a cumulative effect of a change in accounting principle. The Company has adopted SFAS No. 141, "Business Combinations" which was effective for business combinations consummated after June 30, 2001. The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002 and discontinued amortization of goodwill as of such date.

The Company completed the transitional impairment test for existing goodwill as of January 1, 2002 during the second quarter of 2002. Based on comparison of the carrying amounts of the Company's reporting units with the fair values of the reporting units, the Company determined that no goodwill was impaired as of that date. Fair values of the reporting units were established using the discounted cash flow method.

The impact of non-amortization of goodwill on the Company's net income for the year ended December 31, 2002 was \$993 or \$0.02 per share of common stock—basic and diluted. Amortization expense for goodwill for the year ended December 31, 2001 was \$455.

The adoption on January 1, 2002 of the above mentioned standards did not have a material impact on the financial position or the results of operations of the Company.

Accounting Pronouncements Issued But Not Yet Adopted

During the year ended December 31, 2002 the Financial Accounting Standards Board issued several new accounting standards, including SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Corrections", SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". These standards are not expected to have a material impact on the financial position or the results of operations of the Company.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 replaces EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)", and changes the timing of recognition for certain exit costs associated with restructuring activities. Under SFAS No. 146 certain exit costs would be recognized over the period in which the restructuring activities occur. Currently, exit costs are recognized when the Company commits to a restructuring plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002, though early adoption is allowed. The Company will adopt SFAS No. 146 for exit or disposal activities that are initiated after December 31, 2002. The provisions of SFAS No. 146 could result in the Company recognizing the cost of future restructuring activities over a period of time as opposed to as a one-time expense. This standard is not expected to have a material impact on the financial position or the results of operations of the Company.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of FIN 45 are effective for financial statements of annual periods that end after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. This interpretation is not expected to have a material impact on the financial position or the results of operations of the Company.

4. Businesses Acquired

Acquisition of minority interests

In June 2002, WBD Foods acquired 25% of Moscow Baby Food Plant ("ZDMP"), a subsidiary, from one of its shareholders for \$5,000 paid in cash. The fair value of net assets acquired in excess of purchase price of \$3,461 was subsequently recorded as a reduction of the value of intangible assets and property, plant and equipment. The change in minority interest related to this acquisition is presented as "Acquisitions by the Company of minority interests in subsidiaries" in Note 22.

In April 2001, at the same time as the exchange of shares for WBD Foods LLC's shares of participation, an additional share of participation in WBD Foods LLC was exchanged for additional shares in Tsaritsino Dairy Plant ("TsMK"), a subsidiary. The acquisition of 9.6% of TSMK was in exchange for cash amounting to \$1,156 and the share of participation in WBD Foods LLC, which was subsequently exchanged for 448,000 shares of WBD Foods OJSC at \$18 per share, being the estimated fair value per share of WBD Foods OJSC in April 2001, and resulted in a credit to the share premium account of \$7,850. The change in minority interest related to this acquisition is presented as "Acquisitions by the Company of minority interests in subsidiaries" in Note 22.

In May 2000, the Group signed share purchase agreements with the Moscow City Government for the redemption of 15% of the shares of LMK and TsMK. TsMK agreed to purchase 15% of LMK's shares for \$900 and to invest \$8,150 of plant and equipment under an investment program. LMK agreed to purchase 15% of TsMK's shares for \$190 and to invest \$5,500 of plant and equipment under an investment program. This agreement resulted from the Moscow City Government's desire to sell its remaining interest in these entities and the importance of these entities to WBD's business. By December 31, 2000, the purchase consideration had been paid and was recognized as an advance of \$1,090. The investment of plant and equipment was made during the period July 2000 through June 2001. The Moscow City Government's 15% ownership in LMK and TsMK was treated in the accompanying consolidated and combined financial statements as a minority interest until July 2001 on the basis that transfer of ownership was dependent upon the fulfillment of the terms and conditions of the investment program which was completed in July 2001. The purchase price was primarily allocated to property, plant and equipment. The fair value of net assets acquired in excess of purchase price resulting from this allocation of \$13,133 was subsequently recorded as a reduction against property, plant and equipment resulting in total property, plant and equipment acquired of approximately \$1,100. The change in minority interest related to this acquisition is presented as "Acquisitions by the Company of minority interests in subsidiaries" in Note 22.

The Company made a number of other acquisitions of minority interests in certain subsidiaries during the years ended December 31, 2002 and 2001. The total cash consideration paid for these acquisitions was \$1,536 and \$560. The acquisitions made during 2002 and 2001 resulted in fair value of net assets acquired in excess of purchase price of \$602 and \$2,695, respectively, which was recorded as a reduction of the value of property, plant and equipment. Certain acquisitions of minority interests made during the year ended December 31, 2002 resulted in goodwill of \$402. The changes in minority interests related to these acquisitions are presented as "Acquisitions by the Company of minority interests in subsidiaries" in Note 22.

These acquisitions are included in WBD Foods' operating results from their respective dates of acquisition. Pro Forma results of operations reflecting these acquisitions have not been presented because the results of operations of the acquired companies, either individually or collectively, are not material to consolidated results of operations.

New acquisitions

2002

In June 2002, the Company acquired 82.3% of Kharkov Dairy Plant for \$5,136, paid in cash. Kharkov Dairy Plant is a strong player on the Ukranian market with a stable supply of raw materials.

The results of Kharkov Dairy Plant operations have been included in the consolidated financial statements since June 30, 2002.

In July 2002, a 100% interest in Roska, a St. Petersburg dairy company, was acquired by the Company for \$11,634, paid in cash. Roska is one of St. Petersburg's most modern and best equipped dairy plants with excellent location and access roads. Through this major acquisition in St. Petersburg, WBD Foods established substantial dairy production capacity in the North-West region of Russia, one of the most strategically important regions in the whole of the country. The results of Roska operations have been included in the consolidated financial statements since July 31, 2002.

In October 2002, the Company acquired 100% of Ruselectrocenter for \$6,000, paid in cash. The acquisition of this warehouse complex will allow WBD Foods to optimize the juice distribution network in the key Moscow city and Moscow regional markets. The complex is equipped with the latest technology in automated control systems, and will provide a comprehensive range of services from storage to direct delivery to clients. The results of Ruselectrocenter operations will be included in the consolidated financial statements starting from October 31, 2002.

In October 2002, the Company acquired 95.4% of Depsona for \$3,458. Depsona is a strong player in the South region of Russia. The factory has access to large reserves of high-quality local raw materials, which will allow the Company to reduce its dependence on imported juice concentrates. The results of Depsona operations have been included in the consolidated financial statements since September 30, 2002.

The Company also acquired an interest in a number of other companies during 2002 for \$6,807, paid in cash.

The total cash consideration paid for all new acquisitions made in 2002 was \$33,035 attributable to property, plant and equipment (\$26,641), goodwill (\$8,304), other intangible assets (\$1,783) and other current assets (\$7,208) less liabilities (\$10,901).

2001

During March 2001, the Company acquired a 50.1% interest in Ufamolagroprom in exchange for total consideration of \$5,500. This consideration was paid in the beginning of 2001. The Company also acquired an interest in a number of other companies during the year ended December 31, 2001 for \$6,686.

All acquisitions discussed above have been accounted for using the purchase method of accounting and, accordingly, the assets acquired and liabilities assumed have been recorded at their fair values as of the dates of the acquisitions. For the acquisitions that resulted in excess of fair value of the assets acquired and liabilities assumed over the purchase price the difference has been deducted proportionately from non-current assets acquired (excluding long-term investments in marketable securities). For acquisitions that resulted in excess of purchase price over the fair value of the assets acquired and liabilities assumed such excess was recorded as goodwill.

These acquisitions are included in WBD Foods' operating results from their respective dates of acquisition. Pro Forma results of operations reflecting these acquisitions have not been presented

because the results of operations of the acquired companies, either individually or collectively, are not material to consolidated results of operations.

5. Discontinued operations

During 1997, LMK acquired approximately 82% of the outstanding shares of Expobank for a total amount approximating \$6,000. During 1998, LMK made an additional investment of \$6,900 in Expobank in connection with a capital contribution by major shareholders of Expobank. LMK's acquisition and investment in Expobank was made based on the economic condition in Russia during 1998 as a method of ensuring access to funding for the operations of WBD.

During 2000, in an attempt to diversify the investments of the shareholder group, LMK acquired ownership interest in certain breweries including Brewery Volga, Volga-Invest, PiP and Moskvoretzky Brewery (collectively referred to as the Breweries). The aggregate purchase price of these investments was approximately \$7,500.

On December 8, 2000, the Board of Directors of LMK passed a general resolution to alienate LMK's interest in Expobank and the Breweries. This decision was based on the desire to focus on the core dairy and juice business and to cease operations in businesses that were dissimilar. At this time there was no determination as to the timing or method of such disposition.

On March 19, 2001, at the annual shareholders' meeting of LMK, a decision was made that any alienation of Expobank and the Breweries should be completed through a distribution of shares to certain of the controlling group of shareholders. These same individuals simultaneously transferred their direct ownership in TsMK to LMK. The exchange was completed in April 2001 and was recorded in WBD's consolidated and combined financial statements at that date as a distribution to shareholders.

The historical financial statements have been restated to reflect Expobank and the Breweries as discontinued operations for all periods presented. Operating results of the discontinued operations were summarized below. The amounts included income tax provisions based on the standalone results of Expobank and the Breweries. There have been no allocations of general and administrative corporate costs or interest expense related to the overall corporate credit facilities to the discontinued operations. As Expobank and the Breweries essentially functioned as independent entities no corporate costs were eliminated upon the discontinuance of such operations.

Expobank

	Period between January 1 and April 25, 2001	Year ended December 31, 2000
Interest income	\$ 691	\$ 2,839
Interest expense	(258)	(1,604)
Provision for impairment	90	(380)
Net interest income	523	855
Non-interest income	1,142	4,403
Administrative expenses and other	(1,261)	(5,427)
Amortization of negative goodwill	170	681
Net income before income taxes and minority interest	574	512
Income taxes	(313)	(232)
Minority interest	(52)	11
Net income from discontinued operations	\$ 209	\$ 291

The Breweries

	Period between January 1 and April 25, 2001	Three months ended December 31, 2000
Sales	\$ 5,181	\$ 4,948
Cost of sales	(5,068)	(4,186)
Operating expenses	(90)	(968)
Operating loss	23	(206)
Financial (expense) income	(72)	681
Amortization of goodwill	(132)	(87)
(Loss) income before taxes and minority interest	(181)	388
Income taxes	(73)	(638)
Minority interest	148	97
Net loss from discontinued operations	\$ (106)	\$ (153)

The assets and liabilities of the discontinued operations are summarized below. These balances reflect the payable to the Group for deposits made to Expobank, as these amounts remained outstanding upon the disposition of the business.

	Expobank		The Breweries		Total	
	April 25, 2001	December 31, 2000	April 25, 2001	December 31, 2000	April 25, 2001	December 31, 2000
Current assets:						
Cash and precious metals	\$ 2,650	\$ 7,834	\$ 91	\$ 97	\$ 2,741	\$ 7,931
Due from Russian Central bank	4,210	11,580	—	—	4,210	11,580
Placement with banks	11,609	9,313	—	—	11,609	9,313
Trading securities	11,041	11,456	—	—	11,041	11,456
Loans to customers	12,708	10,585	—	—	12,708	10,585
Trade receivables	—	—	1,565	1,550	1,565	1,550
Inventory	—	—	7,883	5,909	7,883	5,909
Other	3,413	3,577	3,034	1,668	6,447	5,245
Total	45,631	54,345	12,573	9,224	58,204	63,569
Long-term assets:						
Property, plant and equipment	1,656	1,802	6,234	4,505	7,890	6,307
Goodwill	—	—	5,096	3,389	5,096	3,389
Trading securities	3,654	3,791	—	—	3,654	3,791
Loans to customers	2,214	1,844	—	—	2,214	1,844
Other	—	—	33	192	33	192
Total	7,524	7,437	11,363	8,086	18,887	15,523
Current liabilities:						
Trade accounts payable	—	—	2,854	1,347	2,854	1,347
Taxes payable	—	—	3,317	3,697	3,317	3,697
Deposits from banks	12,330	14,336	—	—	12,330	14,336
Deposits from WBD	1,027	900	—	—	1,027	900
Deposits from customers	26,448	32,103	—	—	26,448	32,103
Other	7,116	7,392	10,384	2,947	17,500	10,339
Total	46,921	54,731	16,555	7,991	63,476	62,722
Long-term liabilities:						
Debt	—	—	209	214	209	214
Promissory notes	107	107	—	—	107	107
Negative goodwill	4,598	4,768	—	—	4,598	4,768
Total	4,705	4,875	209	214	4,914	5,089
Net assets	\$ 1,529	\$ 2,176	\$ 7,172	\$ 9,105	\$ 8,701	\$ 11,281

Positive goodwill that arose on the acquisition of the Breweries was amortized over 10 years. Negative goodwill, being the excess of the fair value of the net assets acquired over the purchase price, that arose on the acquisition of Expobank, after reduction of non-current assets (excluding long-term investments in marketable securities), was amortized over 10 years.

Increases and decreases in operating assets and liabilities of Expobank are summarized below.

	Period between January 1 and April 25, 2001	Year ended December 31, 2000
Decrease (increase) in reserve deposit with Central Bank of Russia	\$ 265	\$ (1,204)
Increase in placements with banks	(2,340)	(1,429)
Decrease (increase) in trading securities	588	(8,193)
Increase in loans to customers	(2,379)	(6,333)
(Decrease) increase in deposits from banks	(2,006)	10,060
Increase (decrease) in deposits from WBD	127	(382)
(Decrease) increase in deposits from customers	(5,655)	18,568
(Decrease) increase in promissory notes	(2,139)	766
Change in other operating assets and liabilities	911	2,125
Net (decrease) increase in operating assets and liabilities	<u>\$ (12,628)</u>	<u>\$ 13,978</u>

There were no material cash flows from/used in operating activities, financing activities or investing activities of the Breweries since the date of acquisition to April 25, 2001.

6. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2002 and 2001 were comprised as follows:

	2002	2001
Rubles	\$ 10,247	\$ 5,535
Hard currencies	9,076	1,064
Cash equivalents	10,017	320
Total cash and cash equivalents	<u>\$ 29,340</u>	<u>\$ 6,919</u>

Cash equivalents mostly represent hard currency time-deposits in Russian banks with maturity less than 3 months.

7. Trade Receivables, net

Trade receivables as of December 31, 2002 and 2001 were comprised as follows:

	2002	2001
Trade receivables	\$ 62,883	\$ 25,852
Allowance for doubtful accounts	(2,737)	(581)
Trade receivables, net	<u>\$ 60,146</u>	<u>\$ 25,271</u>

The movement in the allowance for doubtful accounts for the years ended December 31, 2002, 2001 and 2000 was as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Balance, beginning of period	\$ 581	\$ 355	\$ 216
Allowance for doubtful accounts acquired in business combinations	495	—	—
Provision for doubtful accounts	1,970	226	139
Write off of trade receivables	(309)	—	—
Balance, end of period	<u>\$ 2,737</u>	<u>\$ 581</u>	<u>\$ 355</u>

8. Inventory, net

Inventory as of December 31, 2002 and 2001 was comprised as follows:

	2002	2001
Raw materials	\$ 67,888	\$ 63,270
Work in progress	2,981	3,679
Finished goods	16,530	22,734
Reserve for inventory obsolescence	(1,336)	(182)
Inventory, net	\$ 86,063	\$ 89,501

Obsolescence and net realizable value reserves expense during 2002, 2001 and 2000 amounted to \$(1,154), \$(182) and \$427, respectively, and was included in cost of sales in the accompanying consolidated and combined statements of operations.

9. Net Investment in Direct Financing Leases

Commencing from 1999, the Company announced a program called "Dairy Rivers of Russia" with the purpose of ensuring a steady and reliable source of milk. Under this program the Company acquired agricultural equipment and leased such equipment to several farms. These transactions were classified as direct financing leases. The lease agreements vary from three to eight years and provide a free of charge equipment transfer option at the end of the lease term. The lease receivables are denominated in U.S. dollars and Russian rubles. The lessees have the option to settle receivable through the delivery of milk supplies to the Company based on a predetermined schedule. The settlement is based on milk prices that are either fixed in U.S. dollars in the range from \$0.17 to \$0.21 per kilogram, depending upon the quality, which approximates the average cash prices at the inception of the lease, or is variable dependent upon prevailing market prices.

The following lists the components of the net investment in direct financing leases at December 31, 2002 and 2001:

	2002	2001
Total future minimum lease payments	\$ 6,759	\$ 5,918
Less: Unearned income	(1,040)	(670)
Net investment in direct finance leases	\$ 5,719	\$ 5,248
Current portion	1,338	1,172
Long-term portion	4,381	4,076

At December 31, 2002 total future minimum lease payments for each of the five succeeding fiscal years are as follows:

Years ended December 31,

2003	\$ 1,785
2004	1,417
2005	1,406
2006	1,214
2007	888
Thereafter	\$ 49

10. Intangible Assets

Identifiable intangible assets as of December 31, 2002 and 2001 were comprised as follows:

	2002		2001	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Intangible assets with determinable lives:				
Supplier contracts	\$ 1,459	\$ (109)	\$ —	\$ —
Trademarks	218	(47)	—	—
Customer relationships	106	—	—	—
Others	514	(97)	551	(90)
Intangible assets with indefinite lives:				
Trademarks	692	—	—	—
Intangible assets	\$ 2,989	\$ (253)	\$ 551	\$ (90)

During 2002, changes in intangible assets primarily relates to the Company's acquisition of \$1,459 relating to supplier contracts, \$910 in trademarks and \$106 in customer relationships. Supplier contracts have a weighted average useful life of 5 years, customer relationships and trademarks have a useful life of 2 years. The remaining \$692 of acquired intangible assets have indefinite lives and were assigned to trademarks.

Amortization expense relating to the net carrying amount of intangible assets at December 31, 2002 is estimated to be \$433 in 2003, \$446 in 2004, \$331 in 2005, \$331 in 2006 and \$222 in 2007.

11. Property, Plant and Equipment

The net book value of property, plant and equipment at December 31, 2002 and 2001 was comprised as follows:

	2002	2001
Buildings	\$ 59,293	\$ 35,819
Freehold machinery and equipment	187,625	130,922
Leasehold machinery and equipment	—	3,065
Computer hardware	6,624	5,878
Other	26,173	16,557
	<u>279,715</u>	<u>192,241</u>
Gross book value of property, plant and equipment	279,715	192,241
Accumulated depreciation	(100,414)	(83,387)
Advances paid for property, plant and equipment	18,485	8,755
Construction in progress and equipment for installation	95,794	36,939
	<u>293,580</u>	<u>154,548</u>
Property, plant and equipment, net	\$ 293,580	\$ 154,548

The Company capitalized interest costs of \$2,131, \$493 and \$321 during the years ended December 31, 2002, 2001 and 2000, respectively, with respect to qualified construction projects.

The gross book value of plant and equipment includes \$3,065 in 2001 which were leased assets. The accumulated depreciation related to these leased assets was \$706 as of December 31, 2001.

Depreciation expense during the years ended December 31, 2002, 2001 and 2000 amounted to \$18,447, \$12,225 and \$8,903, respectively. This included amortization of leased assets of \$235 per annum for the years ended December 31, 2000 and 2001.

12. Goodwill

The Company's interest in the aggregate fair value of identifiable net assets of certain subsidiaries acquired in 2002, 2001 and 1998, was below the fair value of the consideration paid which resulted in goodwill. The goodwill was being amortized in the consolidated and combined statement of operations on a straight-line basis over a fifteen-year period until the adoption of SFAS No. 142 on January 1, 2002, which requires that goodwill is no longer amortized, but is tested for impairment on an annual basis and whenever indicators of impairment arise. Therefore, the Company does not amortize goodwill commencing from January 1, 2002 (see Note 3).

The movement of goodwill for the years ended December 31, 2002 and 2001 comprised:

Balance at December 31, 2000	\$ 933
Acquisitions	10,701
Amortization	(455)
	<u>11,179</u>
Balance at December 31, 2001	\$ 11,179
Acquisitions	8,706
	<u>19,885</u>
Balance at December 31, 2002	\$ 19,885

13. Long-term Investments

At December 31, 2002 and 2001 the Company had the following direct investments in Russian companies:

	2002		2001	
	Ownership	Amount	Ownership	Amount
Albumin	40.6%	\$ 1,251	40.6%	\$ 1,251
Samara Lakto	4.0%	296	4.0%	296
Other	various	442	various	303
Total long-term investments		\$ 1,989		\$ 1,850

The investment in Albumin, an open joint-stock company, is carried on the cost method as no significant influence is exercised by the Company as of December 31, 2002 and 2001, as evidenced by the Company not having significant influence over financial or operating policies of Albumin and having no representation on the Board of Directors.

14. Other Assets

Other assets at December 31, 2002 and 2001 were comprised as follows:

	2002	2001
Advance for acquisition of Sibirski Syr	\$ 2,379	\$ —
Other	433	339
Total other assets	\$ 2,812	\$ 339

In May, 2002 LMK paid \$2,379 in cash to a broker for the acquisition of shares of Sibirsky Syr. The ownership of these shares was not transferred to LMK until January 2003. As of January 15, 2003 LMK owned 100% of Sibirsky Syr and as a result, its net assets and results of operations will be consolidated from that date.

15. Accrued Liabilities

Accrued liabilities at December 31, 2002 and 2001 were comprised as follows:

	2002	2001
Payroll related accruals	\$ 3,987	\$ 3,833
Interest accruals	1,759	1,071
Other accruals	2,600	4,194
Total accrued liabilities	\$ 8,346	\$ 9,098

16. Short-term and Long-term Loans

Short-term loans at December 31, 2002 and 2001 comprised the following:

	2002			2001		
	No. of loans	Amount	Weighted average interest rate	No. of loans	Amount	Weighted average interest rate
U.S.\$ denominated, due August—November 2003	2	\$ 8,000	6.72%	5	\$ 22,137	11.68%
EURO denominated, due January 2003	1	98	6.40%	2	854	8.81%
Ruble denominated, due January—December 2003	31	81,524	16.21%	42	67,494	16.70%
Other currency denominated, due February—August 2003	5	4,428	22.54%	4	1,443	28.28%
Total short-term loans		\$ 94,050			\$ 91,928	

Borrowings with Vneshtorgbank

The Company has a ruble denominated line of credit with Vneshtorgbank with a total limit \$6,292. At December 31, 2002, the Company had no unused borrowings under this credit line. The credit line agreement stipulates that Vneshtorgbank can demand immediate repayment of the outstanding principal and interest, an increase in the amount of pledged assets or additional guarantees, if any statutory quarterly revenues of LMK fall below 105% of the revenues in the comparative quarter of the previous year.

Borrowings with International Moscow Bank

The Company has a U.S. dollar denominated loan with International Moscow Bank ("IMB") at LIBOR plus 5.40% with a limit of \$5,000 and a ruble denominated loan at 16.50% with a limit of \$3,146. At December 31, 2002, the Company had no unused borrowings under these loans. The U.S. dollar denominated loan agreement stipulates that if LMK's average monthly turnover on its accounts in IMB falls below 90% of this borrowing, the floating rate in this period will be 5.65%.

Long-term loans at December 31, 2002 and 2001 comprised the following:

	2002		2001	
	No. of loans	Amount	No. of loans	Amount
U.S.\$ denominated				
ING Bank (Eurasia), lines of credit, interest payable at one month LIBOR plus 1.71% (3.09% at December 31, 2002) due November—December 2006	3	\$ 3,438	3	\$ 2,139
Bank Aval, line of credit, interest payable at 13.00% due August 2004	1	520	—	—
Alfa Bank, interest payable at 13.15% due April 2002	—	—	2	3,980
Credit Lyonnais Rusbank, lines of credit, interest payable at one month LIBOR plus 2.50% (4.34% at December 31, 2001) due beginning January 2001 through November 2002 by quarterly installments	—	—	2	270
EURO denominated				
ING Bank (Eurasia), line of credit, interest payable at three months EURIBOR plus 2.10% (5.00% at December 31, 2002) due by January 2006 by quarterly installments	1	1,751	1	2,015
Raiffeisenbank, line of credit, interest paid at three months LIBOR plus 2.00% (4.86% at December 31, 2002) due October 2003	1	477	1	1,105
Commerzbank, line of credit, interest payable at three months EURIBOR plus 2.00% (4.90% at December 31, 2002) due July 2005 by quarterly installments	1	328	1	379
ZAO KB Citibank, interest payable at three months LIBOR plus 1.50% (4.36% at December 31, 2002) due May 2003 by quarterly installments	1	189	1	479

Ruble denominated

MIB, line of credit, interest payable at 26.00% due April 2003 by monthly installments	—	—	1	1,121
Other (weighted average rate of 15.76% at December 31, 2002)	2	326	2	515
Ukrainian grivna denominated				
Bank Aval, interest payable at 27.00% due May—August 2003	—	—	3	1,259
			—————	—————
Total amount of long-term borrowings			7,029	13,262
			—————	—————
Less current portion of long-term loans			(2,483)	(8,099)
Total long-term loans			\$ 4,546	\$ 5,163
			—————	—————

Borrowings with ING Bank (Eurasia)

The Company has four lines of credit with ING Bank (Eurasia) with a limit of \$5,122 and EURO 4,114 (equivalent to \$4,286 at December 31, 2002). At December 31, 2002, the Company had \$2,582 of unused borrowings under these lines of credit.

Borrowings with Raiffeisenbank and Commerzbank

The Company has two lines of credit with Raiffeisenbank and Commerzbank with a limit of EURO 2,662 (equivalent to \$2,773 at December 31, 2002). At December 31, 2002, the Company had \$342 of unused borrowings under these lines of credit.

Borrowings with ZAO KB Citibank

The Company has a loan with ZAO KB Citibank. The loan agreement stipulates immediate repayment if the Company's average monthly turnover on its current account with ZAO KB Citibank falls below 900 million rubles (equivalent to \$28,316 at December 31, 2002).

Guarantees

Certain of the Company's loans are guaranteed by other parties as follows:

- ZAO KB Citibank, in the amount of \$189, was guaranteed by Commerzbank;
- ING-Bank (Eurasia) line of credit, in the amount of \$3,438, was guaranteed by a supplier of property, plant and equipment and ING bank N.V.;
- Moscow City Government short-term loan, in the amount of \$1,793, was guaranteed by Savings Bank of the Russian Federation ("Sberbank");

- Citibank (Ukraine) short-term loan, in the amount of \$375, was guaranteed by ZAO KB Citibank.

At December 31, 2002 and 2001, WBD Foods and certain other major subsidiaries guaranteed certain short-term and long-term bank loans received by other subsidiaries of WBD Foods. The aggregate amount of such guarantees equaled to the carrying amount of the respective short-term and long-term loans.

Maturity of long-term loans

Aggregate maturity of long-term loans outstanding at December 31, 2002 was as follows:

Years ended December 31,

2003	\$ 2,483
2004	2,135
2005	1,419
2006	960
2007	32
Total long-term loans	<u>\$ 7,029</u>

Collateral

Certain of the Company's assets served as collateral for the short-term and long-term loans from Sberbank, Moscow City Government, International Moscow bank, Bank of Moscow and others.

At December 31, 2002 and 2001 the assets that served as collateral consisted of the following:

- Inventory in the amounts of \$42,037 and \$30,148, respectively;
- Property, plant and equipment with a net book value of \$56,718 and \$74,137, respectively, and;
- Common outstanding shares of KMMZ with the cost of \$3,980 at December 31, 2001.

17. Bonds Payable

On November 1, 2001 LMK issued unsecured ruble denominated bonds amounting to 500,000,000 rubles (\$15,731 at December 31, 2002 exchange rate). The bonds are unconditionally guaranteed by WBD Foods and mature 1,093 days from November 1, 2001 (on November 1, 2004). Interest is payable quarterly. For the first year, interest was fixed at 22.75% and is subsequently adjusted depending upon market conditions and market rates of interest. For the period from November 1, 2002 to January 31, 2003 interest was fixed at 18.00%. LMK is obliged to redeem a bond if its holder notifies LMK of its intention to redeem the bond between October 10, 2003 and October 24, 2003. Management believes that the likelihood of any bondholders requesting redemption directly from LMK during this two week period is remote.

During 2001 and 2002 Bishkeksut, a subsidiary, issued unsecured som denominated bonds amounting to 40,000,000 Kyrgyz soms (\$365 at December 31, 2002 exchange rate). For the first year,

interest was fixed at 30.00%, for the period from December 1, 2002 to December 1, 2003 the interest rate is 18.00%.

18. Other payables

Other payables primarily represent payables for property, plant and equipment and was comprised as follows as of December 31, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Other payables for property, plant and equipment:		
Current payables	\$ 5,264	\$ 1,210
Vendors financing obligations, including		
—current portion	14,384	4,118
—long-term portion	54,480	17,323
	<u>74,128</u>	<u>22,651</u>
Other payables:		
Current payables	5,992	4,604
Long-term payables, including		
—current portion	130	493
—long-term portion	567	663
	<u>6,689</u>	<u>5,760</u>
Total other payables	<u>80,817</u>	<u>28,411</u>
Less current liabilities	<u>(25,770)</u>	<u>(10,425)</u>
Total other long-term payables	<u>\$ 55,047</u>	<u>\$ 17,986</u>

The Company has agreements with suppliers of equipment which provide financing for the period from 1 to 9 years. Total amount of vendor financing obligations is \$51,509 and EURO 16,655 (equivalent to \$17,355 at December 31, 2002). This financing is provided at interest rates of LIBOR plus 1.50% or EURIBOR plus 1.50%. The majority of equipment financing is provided by one supplier. At December 31, 2002, property, plant and equipment amounting to \$48,978 served as collateral under these financing agreements.

Aggregate maturity of other long-term payables outstanding at December 31, 2002 was as follows:

Years ended December 31,	
2003	\$ 14,514
2004	14,476
2005	12,321
2006	11,520
2007	7,578
Thereafter	9,152
Total maturity of other long-term payables	69,561
Less current portion of other long-term payables	(14,514)
Total other long-term payables	\$ 55,047

19. Income Tax

WBD Foods' provision for income taxes for the years ended December 31, 2002, 2001 and 2000 was as follows:

	2002	2001	2000
Current provision	\$ 14,211	\$ 11,993	\$ 9,656
Deferred charge (benefit)	38	2,173	(88)
Total provision for income taxes	\$ 14,249	\$ 14,166	\$ 9,568

In Russia, the Group's statutory income tax rate in 2000 was 30%. From January 1, 2001, the Group's Russian statutory income tax rate increased to 35% as a result of changes in the legislation. The deferred tax net asset increased by \$51 as the result of such change in the statutory tax rate. From January 1, 2002, WBD Foods' statutory income tax rate was 24% as a result of further changes in Russian legislation.

The actual provision for income taxes reconciled to WBD Foods' theoretical tax provision at statutory rate was as follows for the respective periods ended:

	2002	2001	2000
Income before provision for income taxes	\$ 51,917	\$ 49,873	\$ 32,266
Russian statutory tax rate	24%	35%	30%
Theoretical tax provision at statutory rate	12,460	17,455	9,680
Expenses not deductible for Russian statutory taxation purposes	3,483	6,309	7,768
Profit tax privileges	(4,855)	(11,943)	(7,963)
U.S. GAAP remeasurement loss (gain) not taxable/deductible for domestic statutory taxation purposes	686	(869)	(335)
Change in valuation allowance	2,147	746	—
Deferred tax liability resulting from tax effect of investment program	—	3,436	619
Deferred tax credit resulting from decrease in statutory tax rate to 24%	—	(546)	—
Differences in statutory tax rate and future tax rate (24%)	—	(1,678)	—
Other	328	1,256	(201)
Actual provision for income taxes	\$ 14,249	\$ 14,166	\$ 9,568

In 2001 and 2000 income tax privileges were investment and social infrastructure maintenance credits, small enterprises benefit and baby food products benefit. In 2002 income tax privilege was small enterprises benefit.

The income tax benefit for small enterprises was abolished as of January 1, 2002, except that the benefit will continue to be available to enterprises that were established before July 1, 2001. Such enterprises are exempt from income taxes for the first two years of operations and in the third and

forth years income taxes are levied at a rate of 25% and 50% of the income tax rate, respectively. Starting from January 1, 2002 the Group's juice production primarily concentrated in two small enterprises, Fruit Rivers and Nectarin, which were registered in March and April 2001, respectively.

Following the change in the income tax legislation, the baby food products tax benefit, investment and social infrastructure maintenance credits have been abolished from January 1, 2002. However, certain expenses, including advertising expenses, insurance expenses, interest expenses and other expenses which had limited income tax deductibility in 2001, became deductible in 2002.

Unused credits, such as profit tax privileges, may not usually be carried forward under Russian tax legislation. Accordingly, tax credits are reflected in the Group's consolidated and combined financial statements only to the extent and in the year in which the credits are utilized.

Temporary differences between the tax bases of assets and liabilities and the respective carrying amounts in these consolidated and combined financial statements give rise to the following deferred tax assets and liabilities at December 31, 2002 and 2001:

	2002	2001
Deferred tax assets/(liabilities) arising from tax effect of:		
Salary related accruals	\$ 771	\$ 633
Sales volume discount accrual	222	311
Other accrued liabilities	1,560	1,562
Losses carried forward	2,893	746
Other	—	143
Gross deferred tax asset	5,446	3,395
Less valuation allowance for deferred tax asset	(2,893)	(746)
Deferred tax asset net of valuation allowance	2,553	2,649
Capital leases	(1,763)	(1,650)
Investment programs	(2,182)	(2,738)
Valuation of assets at fair market value as a result of business acquisitions	(4,879)	—
Other	—	(130)
Gross deferred tax liability	(8,824)	(4,518)
Net deferred tax liability	\$ (6,271)	\$ (1,869)
Analyzed as to:		
Current deferred tax asset	1,850	2,060
Long-term deferred tax liability	8,121	3,929

For statutory income tax purposes, WBD Foods had accumulated tax losses of \$12,055 which may be carried forward for use against future income. Their use is restricted to a maximum of 30% of taxable income per annum and expire in 2012.

For financial reporting purposes, a valuation allowance has been recognized to reflect management's estimate of the realization of this deferred tax asset. A valuation allowance is provided when it is more likely than not that some or all of the deferred tax assets will not be realized in the

future. These evaluations are based on expectations of future taxable income and reversals of various taxable temporary differences.

20. Government Grants

In 1993–1999 ZDMP received capital grants from the Russian and Moscow Governments. These grants related to the acquisition of property, plant and equipment for baby food production and are recognized in the consolidated and combined statements of operations in the period in which the depreciation expense on the related property, plant and equipment is incurred. The conditions of the grants are that ZDMP must continue to use the related property, plant and equipment for baby food production. Management believes that it has complied with this condition and will continue to comply in the future.

The movement in capital government grants during the years ended December 31, 2002 and 2001 comprised:

Balance at December 31, 2000	\$	17,954
Amortization		(2,545)
Grant received		484
Balance at December 31, 2001	\$	15,893
Amortization		(2,565)
Grant received		806
Fair value adjustment on acquisition of minority interest in ZDMP (see Note 4)		(3,533)
Balance at December 31, 2002	\$	10,601

Grants are amortized once the related property, plant and equipment are put into operation. Amortization is reported as a reduction in the depreciation expense of the related property, plant and equipment.

During the year ended December 31, 2002 WBD Foods received operating grants from the Russian Government and Moscow City Government in the amount of \$979 (\$1,524 in 2001). These grants related to interest rates on loans used for acquisition of milk and other raw materials, and are recognized in the consolidated and combined statements of operations in the period in which the related interest expense is incurred. The grants were provided at two thirds of the Central Bank of Russia interest rate (equating to 21% at December 31, 2002) or in a fixed amount approximating to half of interest expense. The conditions of the grants are that WBD Foods must use the related loans received from Russian banks for the acquisition of milk and other raw materials and the loans should be repaid upon maturity and no later than April 2003 for majority of these loans. Management believes that the Company has complied with these conditions.

21. Shareholders' Equity

On February 8, 2002, WBD Foods issued and sold 9,000,000 new ordinary shares (ADSs) registered with the U.S. Securities and Exchange Commission at an initial offering price of \$19.50 per

share for total consideration, net of underwriting discount, of \$166,725. Net direct expenses related to the issue of shares amounted to \$4,598. Nominal value of shares issued was 20 rubles per share.

In accordance with Russian corporate laws, earnings available for dividends are limited to profits, denominated in domestic currency, after certain deductions. At December 31, 2002 retained earnings of WBD Foods which are distributable under statutory legislation totaled 239 million rubles (\$7,532 translated at the exchange rate as at December 31, 2002).

22. Minority Interest

The movement in minority interest during the years ended December 31, 2002 and 2001 comprised:

Balance at December 31, 2000	\$ 37,767
Acquisitions by the Company of minority interests in subsidiaries	(20,788)
Acquisitions of subsidiaries	5,119
Minority interest share in income from continuing operations	3,962
Minority interest in net loss of discontinued operations	(96)
Minority interest related to discontinued operations	(2,588)
	<hr/>
Balance at December 31, 2001	\$ 23,376
Acquisitions by the Company of minority interests in subsidiaries	(5,825)
Acquisitions of subsidiaries	2,076
Minority interest share in income from continuing operations	1,922
	<hr/>
Balance at December 31, 2002	<u>\$ 21,549</u>

23. Cost of Sales

Cost of sales for 2002, 2001, and 2000 were comprised of the following:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Raw materials	\$ 506,086	\$ 438,360	\$ 319,344
Personnel	26,548	20,103	11,939
Depreciation	14,983	10,609	7,993
Utilities	10,971	8,734	3,457
Goods for resale	13,770	10,273	2,021
Other	7,349	4,911	4,323
	<hr/>	<hr/>	<hr/>
Total cost of sales	<u>\$ 579,707</u>	<u>\$ 492,990</u>	<u>\$ 349,077</u>

24. Selling and Distribution Expenses

Selling and distribution expenses for 2002, 2001, and 2000 were comprised of the following:

	2002	2001	2000
Advertising and marketing	\$ 34,857	\$ 19,562	\$ 14,305
Personnel	30,620	15,978	8,982
Transportation	24,700	17,144	6,743
Materials and supplies	6,311	2,597	919
Warehouse	5,228	2,408	2,088
Other	7,811	4,524	1,101
Total selling and distribution expenses	\$ 109,527	\$ 62,213	\$ 34,138

25. General and Administrative Expenses

General and administrative expenses for 2002, 2001, and 2000 were comprised of the following:

	2002	2001	2000
Personnel	\$ 33,800	\$ 29,016	\$ 14,756
Taxes other than income tax	11,872	8,452	19,780
Audit, consulting and legal fees	2,613	2,170	1,222
Materials and supplies	2,399	1,623	918
Depreciation	2,075	1,111	575
Communication costs	1,800	1,324	517
Rent	1,531	1,176	334
Security expenses	559	2,210	1,721
Other	6,306	7,379	3,202
Total general and administrative expenses	\$ 62,955	\$ 54,461	\$ 43,025

26. Financial Income and Expenses, net

Financial income and expense, net for 2002, 2001, and 2000 were comprised of the following:

	2002	2001	2000
Interest expense	\$ 12,818	\$ 11,126	\$ 5,638
Interest income	(2,928)	(126)	—
Currency remeasurement losses (gains)	2,860	(2,483)	(1,116)
Bank charges	2,207	2,110	1,100
Other financial (income) expense	(826)	(46)	42
Total financial income and expense, net	\$ 14,131	\$ 10,581	\$ 5,664

27. Pension Costs

Starting from January 1, 2001 all social contributions (including contributions to the Pension fund) were substituted with a unified social tax ("UST") calculated by the application of a regressive rate from 35.6% to 5% to the annual gross remuneration of each employee. WBD Foods allocates UST to three social funds (including the Pension fund) where the rate of contributions to the Pension fund vary from 28% to 5% respectively depending on the annual gross salary of each employee. During 2000 WBD Foods contributed to the Russian Federation state pension scheme ("Pension fund") in respect of its employees. WBD Foods' pension scheme contribution amounted to 28% of employees' gross salaries. The Russian Federation state pension fund contributions are expensed as incurred. Pension costs amounted to \$13,505, \$8,270 and \$4,290 in 2002, 2001 and 2000, respectively. WBD has no other pension obligations.

28. Segment Information

The Company's major reportable continuing business segments are dairy and juice segments. They are strategic business units that produce and offer distinctive products, i.e. sterilized and pasteurized milk, yogurts, dairy desserts, and other dairy products in the dairy segment and fruit juices, nectars, and juice based drinks in the juice segment.

WBD's accounting policy for segments is the same as those described in the summary of significant accounting policies. Management evaluates segment performance based on segment profit or loss before minority interests and deferred taxes. Transfers between segments are made at values that approximate market values.

Continuing Operating Segment—year ended December 31, 2002

	Dairy	Juice	Other	Corporate assets/ expenses	Common assets/ expenses	Intersegment receivables	Consolidated
Total sales	\$ 569,034	\$ 263,309	—	—	—	—	\$ 832,343
Intersegment sales	(6,052)	(1,557)	—	—	—	—	(7,609)
Sales to external customers	562,982	261,752	—	—	—	—	824,734
Cost of sales	(398,068)	(180,609)	—	—	(1,030)	—	(579,707)
Gross profit	164,914	81,143	—	—	(1,030)	—	245,027
Operating expenses	(98,678)	(62,792)	—	(17,509)	—	—	(178,979)
Operating income	66,236	18,351	—	(17,509)	(1,030)	—	66,048
Financial income and expense, net and current provision for income taxes	(21,659)	(5,636)	—	(1,047)	—	—	(28,342)
Net segment profit	\$ 44,577	\$ 12,715	—	(18,556)	(1,030)	—	\$ 37,706
Segment total assets	\$ 384,018	\$ 194,060	7,093	24,907	14,540	(35,525)	\$ 589,093
Expenditure for segment property, plant and equipment	\$ 99,734	\$ 26,538	5,645	3,759	404	—	\$ 136,080

Continuing Operating Segment—year ended December 31, 2001

	Dairy	Juice	Other	Corporate assets/ expenses	Common assets/ expenses	Intersegment receivables	Consolidated and combined
Total sales	\$ 494,682	\$ 192,158	—	—	—	—	\$ 686,840
Intersegment sales	(9,230)	(2,994)	—	—	—	—	(12,224)
Sales to external customers	485,452	189,164	—	—	—	—	674,616
Cost of sales	(374,884)	(117,496)	—	—	(610)	—	(492,990)
Gross profit	110,568	71,668	—	—	(610)	—	181,626
Operating expenses	(66,360)	(38,186)	—	(16,626)	—	—	(121,172)
Operating income	44,208	33,482	—	(16,626)	(610)	—	60,454
Financial income and expense, net and current provision for income taxes	(17,384)	(5,190)	—	—	—	—	(22,574)
Net segment profit	\$ 26,824	\$ 28,292	—	(16,626)	(610)	—	\$ 37,880
Segment total assets	\$ 214,718	\$ 121,839	1,967	5,384	23,220	(14,411)	\$ 352,717
Expenditure for segment property, plant and equipment	\$ 30,801	\$ 9,784	88	4,476	12,504	—	\$ 57,653

Continuing Operating Segment—Year ended December 31, 2000

	Dairy	Juice	Other	Corporate assets/ expenses	Common assets/ expenses	Intersegment receivables	Consolidated and combined
Total sales	\$ 332,013	\$ 141,644	—	—	—	—	\$ 473,657
Intersegment sales	(6,531)	(1,715)	—	—	—	—	(8,246)
Sales to external customers	325,482	139,929	—	—	—	—	465,411
Cost of sales	(250,015)	(98,228)	—	—	(834)	—	(349,077)
Gross profit	75,467	41,701	—	—	(834)	—	116,334
Operating expenses	(45,945)	(23,004)	—	(9,455)	—	—	(78,404)
Operating income	29,522	18,697	—	(9,455)	(834)	—	37,930
Financial income and expense, net and current provision for income taxes	(14,308)	(1,012)	—	—	—	—	(15,320)
Net segment profit	\$ 15,214	\$ 17,685	—	(9,455)	(834)	—	\$ 22,610
Segment total assets	\$ 175,752	\$ 89,619	2,100	1,781	4,228	(38,441)	\$ 235,039
Expenditure for segment property, plant and equipment	\$ 20,091	\$ 2,231	1,477	—	1,624	—	\$ 25,423

The reconciliation between net segment profit and consolidated and combined income from continuing operations for the years ended December 31, 2002, 2001 and 2000 was as follows:

	2002	2001	2000
Total net segment profit	\$ 37,706	\$ 37,880	\$ 22,610
Minority interest	(1,922)	(3,962)	(1,453)
Deferred tax (charge) benefit	(38)	(2,173)	88
Consolidated and combined income from continuing operations	\$ 35,746	\$ 31,745	\$ 21,245

The changes in the carrying amount of goodwill for each segment for the years ended December 31, 2002, 2001 and 2000 were as follows:

	<u>Dairy</u>	<u>Juice</u>	<u>Other</u>	<u>Total</u>
Balance at December 31, 2000	\$ 933	—	—	\$ 933
Acquisitions	10,224	—	477	10,701
Amortization	(455)	—	—	(455)
Balance at December 31, 2001	10,702	—	477	11,179
Acquisitions	7,492	1,214	—	8,706
Balance at December 31, 2002	\$ 18,194	1,214	477	\$ 19,885

As of December 31, 2002, and 2001, segment total assets equalled consolidated total assets.

For the years ended December 31, 2002, 2001, and 2000, approximately 95%, 97% and 99% of sales were generated in and sold to customers in Russia. As of December 31, 2002 and 2001, the long-lived assets of the Company were primarily located in Russia.

The financial data above does not reflect information by WBD Foods' separate products and sales as it is impracticable to produce this information.

The majority of the Company's packaging materials is purchased from one supplier. There can be no assurance that, in the event of a loss of this supplier or unfavourable developments in the business practices of this supplier, substantially all of the current levels of packaging materials could be purchased at comparable, or nearly comparable, prices on the international market.

29. Related Parties

Trinity-Negus

During 2002, 2001 and 2000, the Company engaged in transactions with Trinity-Negus ("Trinity"), a private security company, which is owned by members of the control group of shareholders. Trinity provided the companies of the Group with security services in 2002, 2001 and 2000 amounting to approximately \$221, \$2,206 and \$1,721, respectively. As of December 31, 2001 and 2000 accounts payable to Trinity in respect of security services amounted to \$201 and \$173, respectively.

Wimm-Bill-Dann Trans

During 2002, 2001 and 2000 the Company received transportation services from Wimm-Bill-Dann Trans ("WBD Trans"), a closed joint stock company, which is a WBD Foods' investee, amounting to approximately \$5,909, \$5,251, and \$1,870, respectively. As of December 31, 2002, 2001 and 2000 advances paid to WBD Trans in respect of transportation services amounted to \$138, \$190 and \$24, respectively.

Perekriostok

One of the members of WBD Foods' Board of Directors is also a member of the Board of Directors in Trade House "Perekriostok" ("TH"), which buys dairy and juice products from WBD Foods. Sales to TH in 2002 were \$6,804. Amount due from TH at December 31, 2002 was \$372.

Adonis

During 2002 and 2001, the Company paid for construction of an administrative building amounting to \$2,278 and \$4,140, respectively, to Adonis, a limited liability company, which is controlled by members of the control group of shareholders. The construction was capitalized as of December 31, 2002. As of December 31, 2002, there were no outstanding advances in respect of Adonis.

Poultry Factory Gorki-2

During 2002 and 2001 the Company purchased milk from Poultry Factory Gorki-2, a closed joint stock company, which is controlled by members of the control group of shareholders, amounting to \$291 and \$580, respectively. As of December 31, 2002 and 2001 accounts payable to Poultry Factory Gorki-2 in respect of milk received amounted to \$15 and \$10, respectively.

The Breweries

As of December 31, 2002 the Company had loans receivable from Brewery Volga, Volga-Invest and Moskvoretzky Brewery amounting to \$693. These loans are interest free, ruble denominated and mature during 2003. The loans were provided in early 2001 and before the alienation of the Breweries (see Note 5). As of December 31, 2002 these loans were included in other current assets.

Current shareholders

During 2002 WBD Foods acquired 25.1% interest in ZDMP from a current shareholder for \$5,000 (see Note 4).

30. Commitments and Contingencies

Property, plant and equipment purchase commitments

As of December 31, 2002, contracted expenditures for the purchase of property, plant and equipment in the period subsequent to December 31, 2002 were as follows:

Years ended December 31,

2003	\$ 1,213
2004	1,175
2005	872
2006	750
2007	710
Thereafter	144
Total commitments	4,864
Less interest expense	(300)
Total commitments at present value	\$ 4,564

Insurance

In 2002 the Company did not have insurance coverage for its major plant facilities, business interruption, product liability or third party liability in respect of property or environmental damage arising from accidents on the Company property or relating to the Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

As of December 31, 2002, the Company is unaware of any asserted or unasserted claims.

Taxation

During 2002, 2001 and 2000 WBD used certain tax optimisation initiatives. These initiatives may be challenged by the Russian tax authorities. WBD believes that the tax savings to the Company for 2002, 2001 and 2000 in respect of these initiatives amounted to approximately \$3.5 million, \$5.6 million and \$8.0 million, respectively. Should the Russian tax authorities question these initiatives and prove successful in their claim, they would be entitled to recover these amounts, together with penalties amounting to 20% of such amounts and interest at the rate of 1/300 of the Central Bank of Russia rate, equating to 0.07% at December 31, 2002, for each day of delay for late payment of such amounts. Management will vigorously defend any claims that these initiatives are contrary to Russian tax law.

Environmental Remediation Costs

The Company is not aware of any potential environmental claims and therefore does not have any liabilities associated with environmental remediation costs recorded as of December 31, 2002 or December 31, 2001.

31. Subsequent events

Employee Stock Option Plan

On August 30, 2002 the Board of Directors authorized management to develop a stock option plan for officers and key employees of the Company. On January 31, 2003, an issue of 1,350,000 additional shares has been approved by a shareholders meeting to fund an employee stock option plan. Details of the plan are currently under review by the Board of Directors.

32. Subsequent debt issuance and refinancing (unaudited)

On April 15, 2003, the Company issued ruble-denominated bonds on the Moscow Interbank Currency Exchange amounting to 1.5 billion rubles (\$48 million at the April 15, 2003 exchange rate) to Russian institutional investors, guaranteed by Vitafrukt, one of the Company's juice subsidiaries. The bonds mature on April 11, 2006. Interest is payable semi-annually. For the first coupon payment, interest is fixed at 12.9%, and subsequent interest payments will be indexed to the inflation rate. The bondholders have the right to demand prepayment in the event of payment defaults in relation to debt in excess of \$10 million or if certain financial tests are not met.

On May 14, 2003, the Company entered into a loan agreement with UBS (Luxembourg) S.A. as lender, pursuant to which UBS (Luxembourg) S.A. lent to the Company a principal amount of U.S.\$150 million on May 21, 2003. The loan matures on May 21, 2008, and interest is payable semi-annually in arrears at an annual rate of 8.5%. For the sole purpose of financing this loan to the Company, UBS (Luxembourg) S.A. issued U.S.\$150 million 8.5% Loan Participation Notes due 2008 on May 21, 2003.

The above-mentioned loan is initially, unconditionally, irrevocably, jointly and severally guaranteed by the Lianozovo Dairy Plant, the Tsaritsino Dairy Plant and Trade Company Wimm-Bill-Dann pursuant to a guarantee dated May 14, 2003 entered into with UBS (Luxembourg) S.A.

The Company intends to use approximately U.S. \$95 million of the aggregate proceeds of the loan and the April 2003 ruble-denominated bond to refinance certain existing short-term indebtedness.

Item 19 Exhibits

- 1.1 Charter of WBD OJSC (English Translation)
- 2.1 Deposit Agreement, dated January 17, 2002, by and among the Company, the Depositary, and the holders and beneficial owners from time to time of the ADRs is hereby incorporated by reference to Exhibit 2.1 to the Annual Report filed pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934 for the fiscal year ended December 31, 2001 on Form 20-F/A.
- 4.1 U.S. \$150,000,000 Loan Agreement Dated as of 14 May 2003 between Open Joint Stock Company Wimm-Bill-Dann Foods as Borrower and UBS (Luxembourg) S.A. as Lender
- 4.2 Deed of Guarantee Dated as of 14 May 2003 between OAO Lianozovo Dairy Plant, OAO Tsaritsino Dairy Plant, ZAO Trade Company Wimm-Bill-Dann as Guarantors and UBS (Luxembourg) S.A. as Lender
- 4.3 Contract No. P31002, dated January 1, 2003, by and between PJSC Lianozovo Dairy and JSC Tetra Pak AO
- 4.4 Contract No. P31009, dated January 1, 2003, by and between ZAO Wimm-Bill-Dann Purchaser and JSC Tetra Pak AO
- 4.5 Subsoil Use License No. 01948 issued to Rodniki Valdaya Limited Liability Company; License Agreement on the terms of subsoil use for the extraction of up to 500 m3/day of underground drinking water from exploitation wells No. 2537 and No. 2542 (English Translation)
- 4.6 Exchange Agreement No. B-01, dated April 4, 2001, by and between Moscow Baby Food Plant and Mikhail Vishnyakov is incorporated herein by reference to Exhibit 10.2 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)
- 4.7 Exchange Agreement No. B-02, dated April 4, 2001, by and between Lianozovo Dairy Plant and Mikhail Vishnyakov is incorporated herein by reference to Exhibit 10.3 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)
- 4.8 Exchange Agreement No. B-03, dated April 4, 2001, by and between Lianozovo Dairy Plant and Mikhail Dubinin is incorporated herein by reference to Exhibit 10.4 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)
- 4.9 Exchange Agreement No. B-04, dated April 4, 2001, by and between Lianozovo Dairy Plant and Alexander Orlov is incorporated herein by reference to Exhibit 10.5 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)
- 4.10 Exchange Agreement No. B-05, dated April 4, 2001, by and between Lianozovo Dairy Plant and Sergei Plastinin is incorporated herein by reference to Exhibit 10.6 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)
- 4.11 Exchange Agreement No. B-06, dated April 4, 2001, by and between Lianozovo Dairy Plant and Gavril Yushvaev is incorporated herein by reference to Exhibit 10.7 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)
- 4.12 Exchange Agreement No. B-07, dated April 4, 2001, by and between Lianozovo Dairy Plant and Evgeny Yaroslavsky is incorporated herein by reference to Exhibit 10.8 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)
- 4.13 Exchange Agreement No. TsK-01, dated April 5, 2001, by and between Lianozovo Dairy Plant and Mikhail Vishnyakov is incorporated herein by reference to Exhibit 10.9 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)

- 4.14 Exchange Agreement No. TsK-02, dated April 5, 2001, by and between Lianozovo Dairy Plant and Mikhail Dubinin is incorporated herein by reference to Exhibit 10.10 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)
- 4.15 Exchange Agreement No. TsK-03, dated April 5, 2001, by and between Lianozovo Dairy Plant and Alexander Orlov is incorporated herein by reference to Exhibit 10.11 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)
- 4.16 Exchange Agreement No. TsK-04, dated April 5, 2001, by and between Lianozovo Dairy Plant and Sergei Plastinin is incorporated herein by reference to Exhibit 10.12 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)
- 4.17 Exchange Agreement No. TsK-05, dated April 5, 2001, by and between Lianozovo Dairy Plant and Aleksandrs Timohins is incorporated herein by reference to Exhibit 10.13 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)
- 4.18 Exchange Agreement No. TsK-06, dated April 5, 2001, by and between Lianozovo Dairy Plant and Gavril Yushvaev is incorporated herein by reference to Exhibit 10.14 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)
- 4.19 Exchange Agreement No. TsK-07, dated April 5, 2001, by and between Lianozovo Dairy Plant and Evgeny Yaroslavsky is incorporated herein by reference to Exhibit 10.15 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)
- 4.20 Amended and Restated Partnership and Cooperation Agreement is incorporated herein by reference to Exhibit 99.1 to Amendment No. 2 to the Registration Statement on Form F-1 (Registration No. 333-14278)
- 6.1 Statement on earnings per share calculation
Please see "Item 18. Financial Statements."
- 8.1 List of the Company's Subsidiaries
- 10.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 10.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

WIMM-BILL-DANN FOODS OJSC

By: /s/ SERGEI A. PLASTININ

Name: Sergei A. Plastinin

Title: Chairman of the Management Board

Date: June , 2003

I, Sergei A. Plastinin, certify that:

1. I have reviewed this annual report on Form 20-F of Wimm-Bill-Dann Foods OJSC;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June , 2003

/s/ SERGEI A. PLASTININ

Sergei A. Plastinin
Chairman of the Management Board

I, Vladimir V. Preobrajensky, certify that:

1. I have reviewed this annual report on Form 20-F of Wimm-Bill-Dann Foods OJSC;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June , 2003

/s/ VLADIMIR V. PREOBRAJENSKY

Vladimir V. Preobrajensky
Chief Financial Officer

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Exhibit 1.1

Approved
by the General Meeting of Shareholders
of OJSC Wimm Bill Dann Foods
Minutes No. 31-05 of May 31, 2002
Chairman of the Meeting

_____ (D. Iakobachvili)
Secretary of the Meeting

_____ (M. Dubinin)

CHARTER

OF OPEN JOINT STOCK COMPANY

Wimm Bill Dann Foods

(restated version)

Moscow, 2002

ARTICLE 1. Name, location, and period of activity.

1.1 Open Joint Stock Company "Wimm-Bill-Dann Foods" (hereinafter, the "Company") has been created and operates in accordance with the RF Civil Code; Federal Law No. 208-FZ of December 26, 1995, "On Joint Stock Companies" (the "JSC Law"); the Law "On Foreign Investments in the Russian Federation"; and other current Russian legislation and this Charter of the Company.

The Company has been created by reorganization, in the form of transformation of Wimm-Bill-Dann Foods, a limited liability company registered by the State Registration Chamber under the Ministry of Justice of the Russian Federation (certificate of registration and entry into the state register of commercial organizations No. R-15968.15 of April 16, 2001). The Company is the full successor to all rights and obligations of Wimm-Bill-Dann Foods Limited Liability Company.

1.2 Type of the Company: open joint stock company.

1.3 Full trade name of the Company in the Russian language: "(Russian Language)".

1.4 Full trade name of the Company in the English language: Open Joint Stock Company "Wimm-Bill-Dann Foods".

1.5 Short trade name in the Russian language: OAO "(Russian Language)".

1.6 Short trade name in the English language: WBD Foods.

1.7 Documents of the Company intended for third parties must contain one of the names specified above.

1.8 Location of the Company: 109028, Moscow, Yauzsky bulvar, d. 16/15, Room 306. The location of the Company is the permanent location of its individual executive body, the Chairman of the Management Board.

1.9 Postal address of the Company: 109028, Moscow, Yauzsky bulvar, d. 16/15, Room 306.

1.10 The Company is founded for an unlimited period of activity.

1.11 The number of shareholders that the Company may have is unlimited.

ARTICLE 2. Legal status of the Company.

2.1 The Company is a legal entity and owns separate property accounted for on its own independent balance sheet. The Company may in its own name acquire and exercise property and non-property rights, perform obligations, and be a plaintiff or a defendant in court. The Company shall be considered created as a legal entity from the time of its state registration.

2.2 The Company may have civil rights and bear obligations necessary for the carrying out of any activities not prohibited by federal laws.

Certain activities, the list of which is defined by federal laws, may be engaged in by the Company only on the basis of a special authorization (license). If the special authorization (license) to engage in a certain activity is granted on the condition that such activity must be engaged in exclusively, then during the period of validity of the special authorization (license) the Company shall be entitled to engage only in the activities contemplated by the special authorization (license), and attendant activities.

2.3 The Company shall have a circular seal bearing its full trade name in Russian and specifying its location. The seal may also include the Company's trade name in any foreign language. The Company may have letterheads and forms bearing its name, its own logo, and duly registered trademarks and other means of visual identification.

2.4 The Company is entitled to open bank accounts in the Russian Federation and elsewhere in the established manner.

2.5 The Company may on a voluntary basis join unions, associations, concerns, and intersectoral, regional, and other associations, on terms consistent with the current legislation of the Russian Federation.

- 2.6 In accordance with the provisions of current legislation the Company may create branches and open representative offices in the territory of the Russian Federation. The creation of branches and the opening of representative offices by the Company outside the territory of the Russian Federation shall be done also in accordance with the legislation of the foreign state where the respective branches and representative offices are located, unless otherwise provided by an international treaty of the Russian Federation.
- 2.7 Branches and representative offices shall not be legal entities and shall act on the basis of a Bylaw approved by the Company. Branches and representatives offices shall be provided with property by the Company that created them, and such property shall be accounted both on their individual balance sheets and on the Company's balance sheet. The directors of branches and representative offices shall be appointed by the Company and act on the basis of powers of attorney issued by the Company.
- 2.8 Branches and representative offices shall carry out their activities in the name of the Company that created them. Liability for the activities of branches and representative offices shall be borne by the Company that created them. At the time of its founding the Company has no branches or representative offices.
- 2.9 The Company may have subsidiaries and dependent companies with the rights of a legal entity in the territory of the Russian Federation, created in accordance with the current legislation of the Russian Federation, and elsewhere, created in accordance with the legislation of the foreign state where the respective subsidiary or dependent company is located, unless otherwise provided by an international treaty of the Russian Federation. The Company may acquire and own securities (participatory interests in capital) of other enterprises in accordance with current legislation.
- 2.10 State, public, and other organizations are not permitted to interfere in the Company's administrative and economic activities, unless such interference is occasioned by their authority to perform supervisory functions in accordance with the current legislation of the Russian Federation.
- 2.11 Work shall be performed and services shall be provided at the prices and rates and in the forms established by the Company independently, except in the cases provided for by current legislation.
- 2.12 Neither the Russian Federation, nor any subject of the Russian Federation, nor any municipal unit shall exercise a special right to participate in the management of the Company (no "golden share" shall exist).

ARTICLE 3. Liability of the Company and its Shareholders.

- 3.1 The Company is liable for its obligations to the extent of all its property.
- 3.2 The Company is not liable for the obligations of its shareholders.
- 3.3 Shareholders are not liable for the obligations of the Company and bear the risk of losses associated with its activity only to the extent of the value of the shares owned by them.
- 3.4 Shareholders who have not fully paid for shares are solidarily liable for the Company's obligations to the extent of the unpaid portion of the value of the shares owned by them.
- 3.5 If the Company becomes insolvent (bankrupt) due to the actions (or omissions) of its shareholders or other persons entitled to issue instructions binding upon the Company or otherwise able to determine its actions, then said shareholders or other persons may be held subsidiarily liable for the obligations of the Company in the event that its property is insufficient.
- 3.6 The State and its bodies are not liable for the obligations of the Company, and the Company is not liable for the obligations of the State and its bodies.

ARTICLE 4. Objectives, subject-matter, and types of activity of the Company.

- 4.1 The primary objective of the Company is the fullest and highest-quality satisfaction of the needs of legal entities and natural persons for products (work, services) produced (performed, rendered) by the Company in accordance with its charter activity, and the earning of profits.

- 4.2 The subject-matter of the Company's activity is economic activity by means of unification of financial resources of the Company's shareholders for the purpose of satisfying public needs for consumer goods and goods intended for manufacturing purposes (primarily, food products, milk products, juices, and beverages) and earning profits on behalf of the shareholders.
- 4.3 The Company's main activities are production and sale (wholesale and retail) of food products (milk and sour milk products, mineral water, fruit and vegetable juices and beverages, children's food) and organizing the production and sale of these products.
- 4.4 To achieve its established goals the Company will engage in the following activities:
- 4.4.1 production and sale of milk and sour milk products;
 - 4.4.2 production and sale of children's food products, dietetic products, and confectionery;
 - 4.4.3 production and sale of food products, juices, and beverages;
 - 4.4.4 production and sale of mineral water;
 - 4.4.5 wholesale and retail trade;
 - 4.4.6 economic management of retail and wholesale trade;
 - 4.4.7 supply and sale;
 - 4.4.8 economic management of supply and sale of materials and equipment;
 - 4.4.9 market research; consulting in matters of commercial activity, finance, and management;
 - 4.4.10 forwarding services;
 - 4.4.11 foreign economic activity.
- 4.5 The Company may also engage in any other activities not prohibited by legislative acts of the Russian Federation.

ARTICLE 5. Organizational documents of the Company.

- 5.1 This charter is the organizational document of the Company.
- 5.2 The requirements of the Company's charter are binding upon all bodies and shareholders of the Company.
- 5.3 Amendment of the Company's charter or approval of a restated version of the charter shall be done pursuant to a resolution of the General Meeting of Shareholders.
- 5.4 Amendment of the Company's charter or approval of a restated version of the Company's charter shall be done pursuant to a resolution of the General Meeting of Shareholders adopted by a majority of three-fourths of its shareholders owning voting shares and participating in the respective meeting, subject to the following:
- 5.4.1 Amendment of the Company's charter according to the results of placement of shares of the Company, including revisions associated with an increase in the Charter Capital of the Company, shall be done on the basis of the resolution of the General Meeting of Shareholders concerning such increase and the registered report on the results of the share issue. In the event that the Charter Capital of the Company is increased by means of placement of additional shares, the Charter Capital shall be increased by the sum of the par values of the placed additional shares, and the number of authorized shares of each category and class shall be decreased by the number of placed additional shares of the respective category and class.
 - 5.4.2 Amendment of the Company's charter in connection with a decrease in the Charter Capital by means of acquisition of shares of the Company for the purpose of their cancellation shall be done on the basis of the resolution of the General Meeting of Shareholders concerning such decrease and the report, approved by the Board of Directors, on the results of acquisition of shares. In such case, the Charter Capital of the Company shall be decreased by the sum of the par values of the cancelled shares.

- 5.4.3 Amendment of the Company's charter in connection with the creation of branches, the opening of representative offices, and the liquidation thereof shall be done on the basis of a resolution of the Board of Directors.

ARTICLE 6. Charter Capital of the Company.

- 6.1 The charter capital of the Company (the "Charter Capital") is formed from the par value of the shares of the Company acquired by the shareholders.
- 6.2 The Charter Capital defines the minimum amount of property of the Company securing the interests of its creditors.
- 6.3 The Charter Capital is equal to 880,000,000 (eight hundred eighty million) rubles and is divided into 44,000,000 (forty-four million) registered common shares with an identical par value of 20 (twenty) rubles each.
- 6.4 As at the time of approval of this version of the charter, the Charter Capital has been fully paid in.
- 6.5 The Charter Capital may be increased by means of an increase in the par value of shares or placement of additional shares.
- 6.6 Increases in the Charter Capital are permitted only after it has been fully paid in. An increase in the Charter Capital for the purpose of covering losses suffered by the Company is not permitted.
- 6.7 Any resolution to increase the Charter Capital by means of an increase in the par value of shares or resolution to place other emissive securities convertible into shares shall be adopted by the General Meeting of Shareholders.
- Resolutions to increase the Charter Capital by means of placement of additional shares shall be adopted by the General Meeting of Shareholders.
- 6.8 Additional shares may be placed by the Company only within the limits of the number of authorized shares established by the Company's charter.
- 6.9 A resolution to increase the Charter Capital by means of placement of additional shares may be adopted by the General Meeting of Shareholders simultaneously with a resolution adding to the Company's charter the provisions on authorized shares required under the JSC Law for the adoption of such resolution, or a resolution revising the provisions on authorized shares.
- 6.10 A resolution to increase the Charter Capital by means of placement of additional shares must define the number of additional common shares and preferred shares of each class to be placed within the limits of the number of authorized shares of the same category (class); the method of placement; the placement price for shares being placed by subscription or the procedure for determining it, including the placement price, or procedure for determining the placement price, for placement of shares with shareholders holding a preferential right to purchase shares being placed; and the form of payment for additional shares being placed by subscription. Such resolution may also define other terms and conditions of placement.
- 6.11 An increase in the Charter Capital by means of placement of additional shares may be done on the basis of property of the Company. An increase in the Charter Capital by means of an increase in the par value of shares may be done only on the basis of property of the Company.

The amount by which the Charter Capital is increased on the basis of property of the Company must not exceed the difference between the value of the Company's net assets and the sum of the Company's Charter Capital and reserve fund.

In the event of an increase in the Charter Capital on the basis of property of the Company by means of placement of additional shares, such shares shall be distributed among all shareholders. In case of such distribution, each shareholder shall receive shares of the same category (class) as the shares owned by him, in proportion to the number of shares owned by him. It is not permitted to increase the Charter Capital on the basis of property of the Company by means of placement of additional shares in such a way that fractional shares would be formed as a result.

- 6.12 The Company has the right, and in the cases provided for by the JSC Law, the obligation, to decrease its Charter Capital. The Charter Capital may be decreased by means of a decrease in the par value of shares or by reduction of their total number, including by acquisition of a portion of the shares of the Company, in the cases provided for by the JSC Law.
- 6.13 The Company has the right to decrease the Charter Capital by means of acquisition and cancellation of a portion of the shares of the Company.
- 6.14 The Company does not have the right to decrease its Charter Capital if the amount of the Charter Capital would, as a result, fall below the minimum charter capital amount determined in accordance with the JSC Law on the date of submission of documents for state registration of the corresponding amendments to the Company's charter, or, in cases when the Company is obligated by the JSC Law to decrease its Charter Capital, on the date of state registration of the Company.
- 6.15 Resolutions to decrease the Charter Capital by means of a decrease in the par value of shares or by acquisition of a portion of the shares for the purpose of reducing their total number shall be adopted by the General Meeting of Shareholders.
- 6.16 If, when the preferential right to acquire additional shares is exercised, or when shares are consolidated, the acquisition of a whole number of shares is impossible, fractions of shares ("fractional shares") shall be formed.
- 6.17 A fractional share grants the shareholder who owns it the same rights granted by a share of the same category (class), but in an amount corresponding to the fraction of the whole share of which it is a part.
- 6.18 For the purposes of reflecting the total number of placed shares in the Company's charter, all placed fractional shares shall be totaled. If a fractional number forms as a result, the number of placed shares shall be stated in the Company's charter as a fractional number.
- 6.19 Fractional shares shall circulate on an equal basis with whole shares. If one person acquires two or more fractional shares of the same category (class), such shares shall form a whole share and (or) a fractional share equal to the sum of the fractional shares.

ARTICLE 7. Shares of the Company.

- 7.1 A share is a security issued by the Company that certifies the *in personam* right of the Company's shareholders in relation to the Company. Shares shall be issued in uncertificated form, in the form of entries in the Shareholders Register.
- 7.2 The Company shall place common shares and has the right to place one or more classes of preferred shares, provided that the terms of their issuance are consistent with the current legislation of the Russian Federation.
- 7.3 All shares of the Company shall be registered shares.
- 7.4 The Company may additionally place the following categories (classes) of authorized shares:
- 44,000,000 (forty-four million) common shares with a par value of 20 (twenty) rubles each.
- 7.5 All additional common shares of the Company, if such shares are placed, shall grant their owners (shareholders) an identical amount of rights, on an equal basis with common shares already placed by the Company at the time of adoption of the resolution to place additional shares.
- 7.6 All additional preferred shares of the Company, if such shares are placed, shall grant their owners (shareholders) an identical amount of rights. The amount of the dividend and (or) liquidation value of additional preferred shares of the Company shall be established by the General Meeting of Shareholders simultaneously with the adoption of the resolution to increase the Charter Capital by means of the issue of additional preferred shares.

- 7.7 If the Company places securities convertible into shares of a certain category (class), the number of authorized shares of that category (class) must be no less than the number necessary for conversion for the duration of the circulation of such securities. The Company may not adopt any resolution that would alter the rights granted by shares into which securities placed by the Company may be converted.
- 7.8 Payment for shares of the Company may be made in money, securities, other things, or property rights or other rights having a monetary value (however, only rights to intellectual property that have a material (documentary) form recognized by law and may in fact be alienated from their holders and sold to any authorized persons shall be acceptable in payment for shares). The form of payment for additional shares shall be established by the resolution to place them. Payment for other emissive securities shall be made only in money.
- 7.9 Additional shares and other emissive securities of the Company placed by subscription shall be placed on the condition of full payment therefor.
- 7.10 When additional shares are paid for in nonmonetary means, a monetary appraisal of the property contributed in payment for shares shall be made by the Board of Directors in accordance with article 77 of the JSC Law.
- 7.11 When additional shares are paid for in nonmonetary means, an independent appraiser shall be engaged to determine the market value of such property. The value established by the monetary appraisal of such property performed by the founders of the Company and the Board of Directors shall not exceed the value established by the appraisal made by the independent appraiser.
- 7.12 It is not permitted to relieve a shareholder of his obligation to pay for shares of the Company, whether such relief be done by way of an offset of claims against the Company or otherwise.

ARTICLE 8. Rights of shareholders owning common shares of the Company.

- 8.1 Each common share of the Company grants the shareholder who owns it an identical amount of rights.
- 8.2 Shareholders owning common shares of the Company may in accordance with the JSC Law and the Company's charter participate in the General Meeting of Shareholders with the right to vote on all matters within its competence, and are entitled to receive dividends and, in the event of the Company's liquidation, a part of its property.
- 8.3 A shareholder also has the right:
- 8.3.1 to elect and be elected to the management and supervisory bodies of the Company;
 - 8.3.2 to obtain information from the Company's management bodies in the manner established by current Russian legislation and by this charter;
 - 8.3.3 to appoint his own representative(s) to exercise his voting right and other rights granted by shares of the Company.
- 8.4 Shareholders owning common shares also have the other rights granted to them by this charter and by current legislation.
- 8.5 Conversion of common shares into preferred shares, bonds, or other emissive securities is not permitted.

ARTICLE 9. Rights of shareholders owning preferred shares of the Company.

- 9.1 In accordance with current legislation the Company is entitled to issue any classes and categories of preferred shares; the Company shall stipulate the terms of issuance when adopting a resolution to place shares and adopting a resolution to make corresponding amendments to the Company's charter.
- 9.2 If the Company issues preferred shares of a particular class (category), shareholders owning preferred shares shall not be entitled to vote at the General Meeting of Shareholders except in the cases provided by current legislation for that class (category) of preferred shares.
- 9.3 Preferred shares of one class (category) shall grant the shareholders who own them an identical amount of rights and have an identical par value.

- 9.4 Shareholders owning preferred shares shall participate in the General Meeting of Shareholders with the right to vote on matters of reorganization and liquidation of the Company.

Shareholders owning preferred shares of a particular class shall acquire the right to vote when the General Meeting of Shareholders decides on amendments to the Company's charter that would limit the rights of shareholders owning preferred shares of that class, including cases of setting or increasing the dividend amount and/or setting or increasing the liquidation value payable on preferred shares of higher priority, or granting of preferences, with respect to the order of priority of payment of dividends and/or the liquidation value of shares, to shareholders owning preferred shares of another class. A resolution to make such amendments shall be deemed to have been adopted only if it receives at least three-fourths of the votes of shareholders owning voting shares and participating in the General Meeting of Shareholders, not including the votes of shareholders owning preferred shares with respect to which rights are to be limited, and three-fourths of the votes of all shareholders owning preferred shares of each class with respect to which rights are to be limited, unless this Charter requires a higher number of votes for the adoption of such a resolution.

- 9.5 Shareholders owning preferred shares have the rights granted to them by this Charter, current Russian legislation, and issue prospectuses for owners of preferred shares of the respective classes (categories).

ARTICLE 10. Bonds and other emissive securities of the Company.

- 10.1 The Company is entitled to issue and place bonds and other emissive securities provided for by legal acts of the Russian Federation on securities.
- 10.2 Placement of bonds and other emissive securities (other than shares) by the Company shall be done pursuant to a resolution of the Board of Directors.
- 10.3 A bond of the Company certifies the right of its holder to demand that the Company redeem the bond (pay the par value or the par value plus interest) on established dates.
- 10.4 A resolution to issue bonds must define the form, periods, and other conditions of redemption of the bonds. A bond must have a par value. The par value of all bonds issued by the Company must not exceed the size of the Charter Capital or the amount of security granted to the Company by third parties for the purpose of the bond issue. The Company may issue bonds only after the Charter Capital has been fully paid in.
- 10.5 The Company may place bonds with a single maturity or bonds that mature in a series on certain dates.
- 10.6 Bonds may be redeemed in monetary form or in other property in accordance with the resolution to issue them. The Company may place bonds secured by a pledge of certain property of the Company, bonds under security granted to the Company by third parties for the purposes of the bond issue, and debentures. Debentures shall not be placed before the third year of the Company's existence, and then only on the condition that two annual balance sheets of the Company have been duly approved by that time.
- 10.7 Bonds may be registered bonds or bearer bonds. If registered bonds are issued, the Company shall be required to keep a register of their holders. A lost registered bond shall be replaced by the Company for a reasonable fee. The rights of the holder of a lost bearer bond shall be restored by a court in the manner established by the procedural legislation of the Russian Federation. The Company may provide for the possibility of early redemption of bonds at the option of their holders. In such case, the resolution to issue the bonds must specify the redemption value and the earliest date when bonds may be presented for early redemption.
- 10.8 The Company may not place bonds or other emissive securities convertible into shares of the Company if the number of authorized shares of a particular category or class is less than the number of shares of that category or class that holders of the convertible bonds or securities would be entitled to acquire.
- 10.9 Bondholders have a preferential right to the distributable profits and assets of the Company in the event of its liquidation, relative to owners of shares, in the manner established by current Russian legislation.

ARTICLE 11. Funds. Net Assets. Profits and dividends.

- 11.1 The Company shall create a reserve fund in the amount of 5% (five percent) of the Charter Capital.
- 11.2 The Company's reserve fund shall be formed by obligatory annual contributions until the amount established by the Company's charter is attained. The amount of the annual contributions must be at least 5% (five percent) of the Company's net profits until the amount established by this charter is attained. The reserve fund is intended for covering the Company's losses, as well as for the redemption of bonds and shares of the Company in the absence of other funds. The reserve fund may not be used for other purposes.
- 11.3 The value of the Company's net assets shall be calculated according to accounting data in the manner established by current Russian legislation.
- 11.4 If at the end of the second or any subsequent financial year the value of the Company's net assets, according to either the annual balance sheet submitted for approval to the Company's shareholders or the results of an audit, is less than its Charter Capital, the Company shall be obligated to announce a reduction in its Charter Capital to an amount not exceeding the value of its net assets.
- 11.5 If at the end of the second or any subsequent financial year the value of the Company's net assets, according to either the annual balance sheet submitted for approval to the Company's shareholders or the results of an audit, is less than the minimum charter capital amount required by the current legislation of the Russian Federation, the Company shall be obligated to adopt a resolution to liquidate.
- 11.6 The book profits and net profits of the Company shall be determined in accordance with accounting rules in effect in the Russian Federation for the financial and economic activity of enterprises and be reflected on the Company's balance sheet. The portion of profits remaining after payment of taxes and other obligatory payments, bond payments (if any), and replenishment of the Company's reserve fund or other funds may be subject to distribution among the shareholders.
- 11.7 A dividend is the portion of the Company's net profits subject to distribution among the shareholders that attaches to one common and/or preferred share.
- 11.8 The Company is entitled once a year to adopt a resolution to pay (declare) dividends on placed shares, unless otherwise established by the JSC Law.
- 11.9 The Company is obligated to pay dividends declared for shares of each category (class). Dividends shall be paid in money or, in the cases provided for by this charter, in other property.
- 11.10 Dividends shall be paid out of the Company's net profits. Dividends on preferred shares of certain classes may be paid out of special funds of the Company designated for that purpose.
- 11.11 A resolution concerning the payment of annual dividends, the amount of the annual dividend, and the form of payment thereof on shares of each category (class) shall be adopted by the General Meeting of Shareholders. The amount of annual dividends may not exceed the amount recommended by the Board of Directors.
- 11.12 The date of payment of annual dividends shall be set by the resolution to pay annual dividends adopted by the General Meeting of Shareholders. If the Company's charter or the resolution of the General Meeting of Shareholders does not set a date for payment of annual dividends, the payment date must be no later than 60 days after the adoption of the resolution to pay annual dividends.
- 11.13 The list of persons entitled to receive annual dividends shall be prepared on the date of preparation of the list of persons entitled to participate in the annual General Meeting of Shareholders. For the purpose of preparation of such list, a nominee holder of shares shall submit data concerning the persons on whose behalf he holds shares.
- 11.14 The Company is not entitled to adopt a resolution to pay (declare) dividends on shares:
- 1) until the Charter Capital has been fully paid in;

- 2) prior to the redemption of all shares required to be redeemed in accordance with article 76 of the JSC Law;
 - 3) if on the day of the adoption of such resolution the Company meets signs of insolvency (bankruptcy) in accordance with Russian Federation legislation on insolvency (bankruptcy) or such signs would appear at the Company as a result of the payment of dividends;
 - 4) if on the day of adoption of such resolution the value of the Company's net assets is less than the sum of its Charter Capital, reserve fund, and the excess of the liquidation value of placed preferred shares over the par value or would become less as a result of the adoption of such resolution;
 - 5) in other cases provided for by federal laws.
- 11.15 The Company is not entitled to adopt a resolution to pay (declare) dividends on common shares and preferred shares whose dividend amount is undefined, unless a resolution to fully pay dividends (including all accumulated dividends on cumulative preferred shares) on all classes of preferred shares whose dividend amount is defined by the Company's charter has been adopted.
- 11.16 The Company is not entitled to adopt a resolution to pay (declare) dividends on preferred shares of any class whose dividend amount is defined by this charter, unless a resolution to fully pay dividends (including all accumulated dividends on cumulative preferred shares) on all classes of preferred shares granting higher priority in receipt of dividends ahead of the preferred shares of that class has been adopted.
- 11.17 The Company is not entitled to pay declared dividends on shares:
- 1) if on the day of payment the Company meets signs of insolvency (bankruptcy) in accordance with legislation of the Russian Federation on insolvency (bankruptcy) or such signs would appear at the Company as a result of payment of dividends;
 - 2) if on the day of payment the value of the Company's net assets is less than the sum of its Charter Capital, reserve fund, and the excess of the liquidation value of placed preferred shares over the par value or would become less as a result of payment of dividends;
 - 3) in other cases provided for by federal laws.
- 11.18 The Company is obligated to pay declared dividends to shareholders upon the cessation of the circumstances specified in clause 11.17.

ARTICLE 12. Placement of shares and other emissive securities by the Company.

- 12.1 The Company may place additional shares and other emissive securities by subscription or by conversion. In the event of an increase in the Company's charter capital on the basis of its property, the Company shall place the additional shares by distributing them among shareholders.
- 12.2 The Company may conduct placement of shares and emissive securities of the Company by open or closed subscription. The means of placement (open or closed subscription) of shares and securities convertible into shares shall be determined by this charter or, in the absence of indications in the charter, by the resolution of the General Meeting of Shareholders. If neither the Company's charter nor the resolution of the General Meeting of Shareholders contains indications as to the means of placement of shares and securities of the Company convertible into shares, the placement may be conducted only by open subscription.
- 12.3 Shares (emissive securities of the Company convertible into shares) shall be placed by closed subscription only pursuant to a resolution of the General Meeting of Shareholders to increase the Charter Capital by means of placement of additional shares (a resolution to place issued securities of the Company convertible into shares) adopted by a majority of three-fourths of the votes of owners of voting shares taking part in the General Meeting of Shareholders.
- 12.4 Common shares comprising more than 25% (twenty-five percent) of earlier placed common shares shall be placed by open subscription only pursuant to a resolution of the General Meeting of Shareholders adopted by a majority of three-fourths of the votes of owners of voting shares taking part in the General Meeting of Shareholders.

- 12.5 Emissive securities convertible into common shares which, if converted, would comprise more than 25% of earlier placed common shares may be placed by open subscription only pursuant to a resolution of the General Meeting of Shareholders adopted by a majority of three-fourths of the votes of owners of voting shares taking part in the General Meeting of Shareholders.
- 12.6 Additional shares of the Company placed by subscription shall be paid for at the price set by the Board of Directors in accordance with article 77 of the JSC Law, but at no lower than their par value.
- 12.7 The price of placement of additional shares among shareholders of the Company in conjunction with the exercise of their preferential right to acquire shares may be lower than the price of placement among other persons, but by no more than 10 percent.
- 12.8 The amount of compensation to a broker participating in the placement of additional shares of the Company by subscription must not exceed 10 percent of the placement price of the shares.
- 12.9 The Company may place additional shares among its employees. In such case, the placement of additional shares shall be done in accordance with a resolution of the General Meeting of Shareholders, adopted by ³/₄ (three-quarters) of the votes of shareholders owning voting shares and participating in voting on the matter, by closed subscription, and shares shall be paid for at market value, but at no lower than their par value.
- 12.10 When additional shares and emissive securities convertible into shares are placed by open subscription, shareholders of the Company have a preferential right to purchase such shares and securities in proportion to the number of shares of the same category (class) owned by them.
- 12.11 Shareholders of the Company who voted against or did not participate in voting on the matter of placement of shares and emissive securities convertible into shares by closed subscription have a preferential right to purchase additional shares and emissive securities convertible into shares being placed by closed subscription, in a quantity proportional to the number of shares of the same category (class) owned by them. This right does not extend to placement of shares and other emissive securities convertible into shares by closed subscription only among shareholders, provided that shareholders have the opportunity to purchase a whole number of shares and other emissive securities convertible into shares being placed in proportion to the number of shares of the respective category (class) owned by them.

ARTICLE 13. Register of Shareholders of the Company.

- 13.1 The register of shareholders of the Company ("Shareholders Register") shall contain information on each registered person, the number and categories (classes) of shares recorded to the name of the registered person, and other information provided for by legal acts of the Russian Federation.
- 13.2 The holder of the Shareholders Register may be the Company itself or a professional participant in the securities market performing activities in respect of keeping a register of holders of registered securities ("registrar").
- 13.3 The holder of the Shareholders Register of a company with more than 50 shareholders must be a registrar. In such case, the Company shall enter into a contract with a specialized registrar for the keeping of the register on the basis of a corresponding resolution of the Board of Directors adopted by a majority of votes of the members of the Board of Directors participating in the meeting. The contract for the keeping of the register shall be concluded only with a single legal entity.
- 13.4 A specialized register performing activities in respect of the keeping of the Company's register is not entitled to complete transactions with the Company's securities.
- 13.5 The fact of entrusting the keeping and storage of the Shareholders Register to a registrar shall not relieve the Company of liability for the keeping and storage of the register.
- 13.6 A person registered in the Shareholders Register is obligated to report changes in his data to the holder of the register in a timely manner. In case of failure to provide information on changes to data, the Company and the registrar shall not be liable for losses caused in connection therewith.

- 13.7 Refusal to make an entry into the system of keeping the Shareholders Register or deviation from such entry, including in relation to a purchaser in good faith, is not permitted, except in the cases provided for by federal laws.

ARTICLE 14. Management bodies of the Company.

- 14.1 The Company's management bodies are:
- 14.1.1 the General Meeting of Shareholders;
 - 14.1.2 the Board of Directors;
 - 14.1.3 the Chairman of the Management Board;
 - 14.1.4 the Management Board.

ARTICLE 15. General meeting of shareholders.

- 15.1 The highest management body of the Company is the general meeting of shareholders of the Company ("General Meeting of Shareholders").
- 15.2 The Company is obligated once a year to hold an annual General Meeting of Shareholders. The Company shall hold an annual General Meeting of Shareholders without regard to whether other (extraordinary) meetings are held. The annual General Meeting of Shareholders shall be held no earlier than two months and no later than six months after the end of the fiscal year. The date of the General Meeting of Shareholders, the procedure for holding the meeting, and the list of materials to be provided shall be established by resolutions of the Board of Directors and by this charter.
- Other requirements, in addition to those set forth in this Charter and the JSC Law, with respect to procedures for preparing, calling, and holding a general meeting of shareholders may be established by the federal body of executive power for the securities market.
- 15.3 All General Meetings of Shareholders other than the annual meeting are deemed extraordinary. An extraordinary General Meetings of Shareholders shall be held pursuant to a resolution of the Board of Directors on the basis of its own initiative or a request of the Audit Committee, the Company's auditor, or a shareholder or shareholders owning at least 10 percent of the voting shares of the Company on the date such request is presented.
- 15.4 The calling of an extraordinary General Meeting of Shareholders requested by the Audit Committee, the Company's auditor, or a shareholder or shareholders owning at least 10 percent of the voting shares of the Company shall be done by the Board of Directors. An extraordinary General Meeting of Shareholders called at the request of the Audit Committee, the Company's auditor, or a shareholder or shareholders owning at least 10 percent of the voting shares of the Company must be held within 40 days of the date of submission of the request to hold such meeting.
- 15.5 If the proposed agenda of an extraordinary General Meeting of Shareholders includes the matter of election of members of the Board of Directors who are to be elected by cumulative voting, such General Meeting of Shareholders must be held within 70 days of the submission of the request to hold the meeting.

In cases when in accordance with articles 68-70 of the JSC Law the Board of Directors is obligated to adopt a resolution to hold an extraordinary General Meeting of Shareholders, such meeting must be held within 40 days of the adoption of such resolution by the Board of Directors.

In cases when, in accordance with the JSC Law, the Board of Directors is obligated to adopt a resolution to hold an extraordinary General Meeting of Shareholders to elect members of the Board of Directors who are to be elected by cumulative voting, such General Meeting of Shareholders must be held within 70 days of the adoption of such resolution by the Board of Directors.

- 15.6 A request to hold an extraordinary General Meeting of Shareholders must contain the wordings of the matters subject to inclusion in the agenda of the meeting. A request to hold an extraordinary General Meeting of Shareholders may contain the wordings of resolutions on each of these matters, and also may propose the form of the General Meeting of Shareholders.

The Board of Directors is not entitled to alter the formulations of matters on the agenda, the formulations of resolutions on such matters, or the proposed form of an extraordinary General Meeting of Shareholders called at the request of the Audit Committee, the Company's auditor, or a shareholder or shareholders owning at least 10 percent of the voting shares of the Company.

If a request to call an extraordinary General Meeting of Shareholders originates from a shareholder or shareholders, it must contain the names of the shareholder or shareholders requesting such meeting and indicate the number and categories (classes) of shares owned by them.

A request to call an extraordinary General Meeting of Shareholders shall be signed by the persons (person) requesting such meeting.

- 15.7 Within five days of the date of presentment of a request to call an extraordinary General Meeting of Shareholders by the Audit Committee, the Company's auditor, or a shareholder or shareholders owning at least 10 percent of the voting shares of the Company, the Board of Directors must adopt a resolution to call an extraordinary General Meeting of Shareholders or a resolution to refuse to call such meeting.

- 15.8 A resolution to refuse to call an extraordinary General Meeting of Shareholders requested by the Audit Committee, the Company's auditor, or a shareholder or shareholders owning at least 10 percent of the voting shares of the Company may be adopted in cases when:

- 1) the procedure established by this article for the presentment of a request to call an extraordinary General Meeting of Shareholders has not been complied with;
- 2) the shareholder or shareholders requesting the extraordinary General Meeting of Shareholders do not own the number of voting shares stipulated by clause 15.3 of this Charter; or
- 3) none of the matters proposed for inclusion in the agenda of the extraordinary General Meeting of Shareholders is assigned to its competence and/or conforms to the requirements of the JSC Law and other legal acts of the Russian Federation.

- 15.9 A resolution of the Board of Directors to call an extraordinary General Meeting of Shareholders or a reasoned resolution to refuse to call such meeting shall be sent to the persons requesting the meeting no later than 3 (three) days after the adoption of such resolution. A resolution of the Board of Directors to refuse to call an extraordinary General Meeting of Shareholders may be appealed to a court.

If the Board of Directors fails to adopt either a resolution to call an extraordinary General Meeting of Shareholders or a resolution to refuse to call such meeting within the period established by clause 15.7 of this Charter, an extraordinary General Meeting of Shareholders may be called by the bodies and persons who requested the meeting. In such case, the bodies and persons calling the extraordinary General Meeting of Shareholders shall have the powers contemplated by the JSC Law and this charter necessary to call and hold a General Meeting of Shareholders. In such case, expenses for the preparation and holding of the General Meeting of Shareholders may be reimbursed out of the Company's funds pursuant to a resolution of the General Meeting of Shareholders.

- 15.10 Notice of a General Meeting of Shareholders must be given no later than 20 days before the meeting; notice of a General Meeting of Shareholders whose agenda includes the matter of reorganization of the Company must be given no later than 30 days before the meeting.

If the agenda of an extraordinary General Meeting of Shareholders includes the matter of reelection of members of the Board of Directors who are to be elected by cumulative voting, notice of the meeting must be given no later than 50 days before the meeting.

Within the specified periods, notice of a General Meeting of Shareholders must be given to each person specified in the list of persons entitled to participate in the General Meeting of Shareholders; the notice shall be sent by registered letter or hand-delivered to each of the aforesaid persons against signature for receipt, and also published in the Wall Street Journal newspaper (New York, USA).

15.11 The notice of a General Meeting of Shareholders must state:

- the full trade name and location of the Company;
- the form of the meeting (assembly or remote voting);
- the date, place, and time of the General Meeting of Shareholders and, if completed ballot papers may be sent to the Company pursuant to clause 3 of article 60 of the JSC Law, the postal address to which completed ballot papers may be sent, or, if the General Meeting of Shareholders is to be held in the form of remote voting, the last date on which ballot papers will be accepted and the postal address to which completed ballot papers are to be sent;
- the date of preparation of the list of persons entitled to participate in the General Meeting of Shareholders;
- the agenda of the General Meeting of Shareholders;
- the procedure for inspection of information (materials) to be provided in preparation for the General Meeting of Shareholders, and the address (addresses) at which it may be inspected.

15.12 The list of persons entitled to participate in a General Meeting of Shareholders shall be prepared on the basis of data from the Shareholders Register at the date established by the Board of Directors.

The date established for the preparation of the list of persons entitled to participate in a General Meeting of Shareholders may not be earlier than 50 days before, or, in the case provided for by clause 2 of article 53 of the JSC Law, earlier than 65 days before, the date of the meeting.

The list of persons entitled to participate in a General Meeting of Shareholders shall contain the name of each such person, data necessary to identify the person, data on the number and category (class) of shares in respect of which he holds the right to vote, and the postal address in the Russian Federation to which should be sent the notice of the General Meeting of Shareholders, ballot papers, if the voting contemplates the sending of ballot papers, and the report on the results of voting.

15.13 The list of persons entitled to participate in a General Meeting of Shareholders shall be made available by the Company for inspection at the request of persons included in such list and holding at least 1 percent of votes, subject to the proviso that data from documents and postal addresses of natural persons included in the list shall be provided only with the consent of such persons.

At the request of any interested party the Company shall be obligated to provide him within three days with an extract from the list of persons entitled to participate in the General Meeting of Shareholders, containing data concerning such person, or a statement attesting that he is not included in the list of persons entitled to participate in the General Meeting of Shareholders.

15.14 Changes to the list of persons entitled to participate in a General Meeting of Shareholders may be made only in cases of restoration of violated rights of persons not included in the list on the date of its preparation or correction of errors made in its preparation.

15.15 A General Meeting of Shareholders is empowered (quorate) if shareholders owning in the aggregate more than half of the votes carried by placed voting shares of the Company participate in the meeting.

Deemed to have participated in a General Meeting of Shareholders are those shareholders who registered to participate in it and those shareholders whose ballot papers were received no later than two days before the date of the meeting. Deemed to have participated in a General Meeting of Shareholders held in the form of remote voting are those shareholders whose ballot papers were received before the deadline for receipt of ballot papers.

If the agenda of a General Meeting of Shareholders includes matters on which different groups of voters are eligible to vote, the presence of a quorum for the adoption of a resolution on these matters shall be determined separately. In such case, the absence of a quorum for the adoption of a resolution on matters on which one group of voters is eligible to vote shall not prevent the adoption of a resolution on matters on which a different group of voters is eligible to vote and for which a quorum is present.

- 15.16 In the absence of a quorum for an annual General Meeting of Shareholders, a repeated General Meeting of Shareholders shall be held with the same agenda. In the absence of a quorum for an extraordinary General Meeting of Shareholders, a repeated General Meeting of Shareholders may be held with the same agenda.
- 15.17 A repeated General Meeting of Shareholders is empowered (quorate) if shareholders owning in the aggregate at least 30 percent of the votes carried by the placed voting shares of the Company participate in the meeting.
- 15.18 Notice of a repeated General Meeting of Shareholders shall be given in the form and manner prescribed by this charter, except that the provisions of paragraph 2 of clause 1 of article 52 of the JSC Law shall not apply. Hand-delivery, other delivery, and publication of ballot papers in conjunction with a repeated General Meeting of Shareholders shall be done in accordance with the requirements of article 60 of the JSC Law.
- 15.19 In the case of a repeated General Meeting of Shareholders held within 40 days of a General Meeting of Shareholders that did not take place, the persons entitled to participate in the repeated General Meeting of Shareholders shall be determined in accordance with the list of persons entitled to participate in the General Meeting of Shareholders that did not take place.
- 15.20 The following are assigned to the competence of the General Meeting of Shareholders:
- 1) amendment of the Company's charter or approval of a restated version of the Company's charter;
 - 2) reorganization of the Company;
 - 3) liquidation of the Company, appointment of a liquidation committee, and approval of interim and final liquidation balance sheets;
 - 4) determination of the number of seats on the Board of Directors, election of its members, and early termination of their powers;
 - 5) determination of the number, par value, and category (class) of authorized shares and the rights granted by such shares;
 - 6) increasing the Charter Capital by means of an increase in the par value of shares or by means of placement of additional shares, unless increases in the Charter Capital by means of placement of additional shares are assigned by this charter, in accordance with the JSC Law, to the competence of the Board of Directors;
 - 7) decreasing the Charter Capital by means of a decrease in the par value of shares, by acquisition of some shares by the Company for the purpose of reducing their total number, or by cancellation of shares acquired or redeemed by the Company;
 - 8) election of members of the Audit Committee and early termination of their powers;
 - 9) approval of the Company's auditor;
 - 10) approval of annual balance sheets and annual financial statements, including reports on profits and losses (profit and loss statements) of the Company; distribution of profits, including payment (declaration) of dividends, and losses of the Company on the basis of results of the financial year;

- 11) determination of the procedure for holding the General Meeting of Shareholders;
 - 12) election of members of the counting committee and early termination of their powers;
 - 13) splitting and consolidation of shares;
 - 14) adoption of resolutions approving transactions in the cases provided for by article 83 of the JSC Law;
 - 15) adoption of resolutions approving major transactions in the cases provided for by article 79 of the JSC Law;
 - 16) acquisition by the Company of placed shares in the cases provided for by the JSC Law;
 - 17) adoption of resolutions concerning participation in holding companies, financial-industrial groups, associations, and other unions of commercial organizations;
 - 18) approval of internal documents regulating the activities of the Company's bodies;
 - 19) decision of other matters provided for by the JSC Law.
- 15.21 Matters assigned to the competence of the General Meeting of Shareholders may not be delegated for decision to an executive body of the Company.
- Matters assigned to the competence of the General Meeting of Shareholders may not be delegated for decision to the Board of Directors, with the exception of matters relating to amendment of the Company's charter in connection with an increase in the Charter Capital in accordance with articles 12 and 28 of the JSC Law.
- 15.22 The General Meeting of Shareholders is not entitled to examine or adopt resolutions on matters not assigned to its competence by the JSC Law.
- 15.23 A resolution of the General Meeting of Shareholders on a matter put to a vote shall be adopted by a majority of votes of shareholders owning voting shares of the Company who participate in the meeting, unless the JSC Law establishes otherwise for the adoption of the resolution. Resolutions on the matters specified in items 1-3, 5, and 16 of clause 15.20 of this charter shall be adopted by the General Meeting of Shareholders by a majority of three-fourths of the votes of shareholders owning voting shares who participate in the respective meeting.
- A resolution to approve a major transaction that has as its subject-matter property whose value exceeds 50 percent of the book value of the Company's assets shall be adopted by the General Meeting of Shareholders by a majority of three-fourths of the votes of shareholders owning voting shares who participate in the meeting.
- 15.24 Resolutions on a matter specified in items 2, 6, and 13-18 of clause 15.20 of this charter shall be adopted by the General Meeting of Shareholders only pursuant to a proposal of the Board of Directors.
- 15.25 Voting at the General Meeting of Shareholders shall be carried out according to the principle, "one voting share of the Company equals one vote," with the exception of cumulative voting in the case provided for by clause 16.4 of this charter.
- 15.26 The procedure for the adoption by the General Meeting of Shareholders of a resolution concerning the procedure for conducting the General Meeting of Shareholders shall be established by the Company's charter, or by internal documents of the Company approved by a resolution of the General Meeting of Shareholders.
- 15.27 The General Meeting of Shareholders is entitled neither to adopt resolutions on matters not included in the agenda of the meeting nor to alter the agenda.
- 15.28 A resolution of the General Meeting of Shareholders may be adopted without assembly (collective presence of shareholders for the purpose of discussing matters on the agenda and adopting resolutions thereon put to a vote) by means of remote voting conducted in accordance with the requirements of legal acts of the Russian Federation.

- 15.29 A General Meeting of Shareholders whose agenda includes matters concerning election of the Board of Directors or the Audit Committee or approval of the Company's auditor, or the matters provided for by sub-clause 11 of clause 1 of article 48 of the JSC Law, may not be held in the form of remote voting.
- 15.30 Voting on matters on the agenda of a General Meeting of Shareholders carried out using ballot papers must conform to the requirements established by the JSC Law, current legislation, and internal documents of the Company.

ARTICLE 16. Board of Directors of the Company.

- 16.1 In the intervals between General Meetings of Shareholders the highest management body of the Company shall be the board of directors of the Company ("Board of Directors"). The Board of Directors shall carry out general management of the Company's activities, with the exception of decisions on matters assigned by this charter to the competence of the General Meeting of Shareholders.
- 16.2 The Board of Directors shall consist of 11 (eleven) persons.
- 16.3 The following matters are assigned to the competence of the Board of Directors:
- 1) determination of the priority directions of the Company's activities;
 - 2) calling of annual and extraordinary General Meetings of Shareholders, except in the cases provided for by clause 8 of article 55 of the JSC Law;
 - 3) approval of the agenda of the General Meeting of Shareholders;
 - 4) determination of the date of preparation of the list of persons entitled to participate in the General Meeting of Shareholders, and other matters assigned to the competence of the Board of Directors in accordance with the provisions of chapter VII of the JSC Law and associated with preparing and holding the General Meeting of Shareholders;
 - 5) placement of bonds and other emissive securities by the Company in the cases provided for by the JSC Law;
 - 6) determination of the price (monetary value) of property and the price of placement and redemption of emissive securities in the cases provided for by the JSC Law;
 - 7) acquisition of shares, bonds, and other securities placed by the Company in the cases provided for by the JSC Law;
 - 8) formation of the executive bodies of the Company and early termination of their powers—election of the Chairman of the Management Board and appointment of the members of the Management Board;
 - 9) establishment of the amounts of compensation and reimbursement to be paid to the executive bodies of the Company—the Chairman of the Management Board and the members of the Management Board;
 - 10) recommendations on the amounts of compensation and reimbursement to be paid to members of the Audit Committee and determination of the amount to be paid for the services of the auditor;
 - 11) recommendations on the amount of the dividend on shares and the procedure for its payment;
 - 12) use of the reserve fund and other funds of the Company;
 - 13) approval of internal documents of the Company, with the exception of internal documents whose approval is assigned by the JSC Law to the competence of the General Meeting of Shareholders or assigned by this charter to the competence of the Company's executive bodies;
 - 14) creation of branches and opening of representative offices of the Company;
 - 15) approval of major transactions in the cases provided for by chapter X of the JSC Law;
 - 16) approval of the transactions provided for by chapter XI of the JSC Law;

- 17) approval of the Company's registrar and the terms of the contract with the registrar, and termination of the contract with the registrar;
 - 18) adoption of resolutions on the Company's participation in other organizations, except in the cases provided for by sub-clause 18 of clause 1 of article 48 of the JSC Law;
 - 19) other matters provided for by the JSC Law and this charter.
- 16.4 Members of the Board of Directors shall be elected by the annual General Meeting of Shareholders by cumulative voting for a term ending at the next annual General Meeting of Shareholders. If an annual General Meeting of Shareholders is not held within the periods established by clause 1 of article 47 of the JSC Law, the powers of the Board of Directors shall be terminated, with the exception of powers relating to the preparation, calling, and holding of an annual General Meeting of Shareholders. A resolution of the General Meeting of Shareholders to terminate powers early may be adopted only with regard to all members of the Board of Directors. In the event of early termination of the powers of the Board of Directors, the powers of the newly elected Board of Directors shall be effective until the election (or reelection) of a new Board of Directors at the next annual General Meeting of Shareholders.
- 16.5 In cumulative voting, the number of votes held by each shareholder shall be multiplied by the number of persons to be elected to the Board of Directors, and a shareholder may cast the votes thus received wholly for one candidate or divide them among two or more candidates. The candidates who receive the greatest number of votes shall be deemed elected to the Board of Directors.
- 16.6 The term of office of members of the Board of Directors shall be counted from the time of their election by the annual General Meeting of Shareholders to the time a new Board of Directors is elected by the next annual General Meeting of Shareholders. Persons elected to the Board of Directors may be reelected an unlimited number of times.
- 16.7 A member of the Board of Directors is entitled at any time to voluntarily resign his powers by sending a written notice to the other members of the Board of Directors. In such case, the powers of the remaining members of the Board of Directors shall not be terminated, except as contemplated below in this clause. In the event that the number of members of the Board of Directors becomes less than 6 (six), the Board of Directors shall be obligated to call an extraordinary General Meeting of Shareholders for the purpose of electing a new Board of Directors. The remaining members of the Board of Directors shall be entitled only to adopt a resolution to call such extraordinary General Meeting of Shareholders.
- 16.8 Only a natural person may be a member of the Board of Directors. Membership on the Board of Directors is not limited to shareholders of the Company. Members of the Company's collective executive body may not constitute a majority of the Board of Directors. The person performing the duties of the individual executive body may not simultaneously be the Chairman of the Board of Directors.
- 16.9 The Chairman of the Board of Directors shall be elected by the members of the Board of Directors from among their number by a majority of votes of the total number of members of the Board of Directors.
- 16.10 The Board of Directors is entitled at any time to reelect its chairman by a majority of votes of the total number of votes of the Board of Directors.
- 16.11 The Chairman of the Board of Directors shall organize its work, call meetings of the Board of Directors and preside at them, organize the keeping of the minutes at meetings, and preside at the General Meeting of Shareholders.
- 16.12 In the absence of the Chairman of the Board of Directors his functions shall be performed by one of the members of the Board of Directors pursuant to a resolution of the Board of Directors.
- 16.13 Meetings of the Board of Directors shall be called by the Chairman of the Board of Directors on his own initiative or at the request of a member of the Board of Directors, the Audit Committee or the Company's auditor, or an executive body of the Company.

- 16.14 A quorum for a meeting of the Board of Directors shall be the presence of 6 (six) members of the Board of Directors.
- 16.15 Resolutions shall be adopted at meetings of the Board of Directors by a majority of votes of members of the Board of Directors participating in the meeting, unless otherwise established by the JSC Law, this charter, or an internal document of the Company. In deciding matters at meetings of the Board of Directors each member of the Board of Directors shall have one vote.
- The assignment of the right to vote by one member of the Board of Directors to another person, including another member of the Board of Directors, is not permitted.
- 16.16 In the event of a tie of votes in the adoption of resolutions at meetings of the Board of Directors, the vote of the Chairman of the Board of Directors shall have a casting vote.
- 16.17 For the purposes of supporting the activities of the Board of Directors and organization its document flow, the Board of Directors may appoint a Secretary of the Board of Directors for the term of office of the respective Board of Directors. Only a natural person may be the Secretary of the Board of Directors. The Secretary of the Board of Directors may not be a shareholder of the Company and/or a member of the Board of Directors. The Secretary of the Board of Directors may be appointed an unlimited number of times.
- The Board of Directors is entitled at any time to adopt a resolution terminating early the powers of the Secretary of the Board of Directors and appointing a new Secretary of the Board of Directors.
- The powers and procedures for the activities of the Secretary of the Board of Directors shall be defined by internal documents of the Company.
- 16.18 Minutes shall be kept at meetings of the Board of Directors. The minutes of a meeting of the Board of Directors shall be prepared no later than 3 days after the meeting. The following information shall be stated in the minutes: the place and time of the meeting; the persons attending the meeting; the agenda of the meeting; matters put to a vote and results of voting thereon; and adopted resolutions. The minutes of a meeting of the Board of Directors shall be signed by the person presiding at the meeting and by the Secretary of the Board of Directors, both of whom shall be responsible for the correct preparation of the minutes.
- 16.19 In determining whether a quorum is present for a meeting of the Board of Directors, and also in determining the results of voting at meetings of the Board of Directors on matters on the agenda, written opinions of members of the Board of Directors absent from the meeting shall be taken into account. Resolutions of the Board of Directors may be adopted by remote voting.
- 16.20 Other matters pertaining to calling and holding of meetings of the Board of Directors may be determined by internal documents of the Company.

ARTICLE 17. Executive bodies of the Company.

- 17.1 Management of the Company's current activities shall be carried out by the individual executive body of the Company—the Director (Chairman of the Management Board)—and by the collective executive body of the Company—the management board of the Company ("Management Board"). The executive bodies of the Company (the Chairman of the Management Board and the Management Board) shall be accountable to the Board of Directors and the General Meeting of Shareholders.
- 17.2 The Chairman of the Management Board shall perform the functions of Director of the Company and chairman of the collective executive body of the Company (the Management Board). The Chairman of the Management Board shall be the manager of the Company.
- 17.3 Assigned to the competence of the individual executive body of the Company are all matters relating to management of the Company's current activities, with the exception of matters assigned to the competence of the General Meeting of Shareholders and the Board of Directors. The individual executive body of the Company shall arrange the fulfillment of resolutions of the General Meeting of Shareholders and the Board of Directors.

- 17.4 The Chairman of the Management Board without a power of attorney shall act in the name of the Company, including:
- 1) carry out operative management of the Company's activities;
 - 2) have the right of first signature on financial documents;
 - 3) direct and dispose of the Company's property for the purpose of assuring its current activity, within the limits established by this charter and current Russian legislation;
 - 4) represent the Company's interests both in the Russian Federation and elsewhere, including in foreign states;
 - 5) approve staff lists, conclude employment contracts with the Company's employees, and offer incentives to and impose penalties on the Company's employees;
 - 6) direct the work of the Management Board and preside at its meetings;
 - 7) recommend candidates for the Management Board to the Board of Directors for approval;
 - 8) complete transactions in the Company's name, except in the cases provided for by the JSC Law and the Company's charter;
 - 9) issue powers of attorney in the Company's name;
 - 10) open bank accounts of the Company;
 - 11) organize the Company's accounting and reporting;
 - 12) issue orders and instructions binding upon all employees of the Company;
 - 13) perform other functions necessary for achievement of the goals of the Company's activities and assurance of its normal operation in accordance with current legislation and the Company's charter, with the exception of the functions assigned by the JSC Law and the Company's charter to other management bodies of the Company.
- 17.5 The Chairman of the Management Board shall be elected by the Board of Directors at its first meeting (after the election of a new Board of Directors at the annual General Meeting of Shareholders) for a term of 3 (three) years.
- The term of office of the Chairman of the Management Board shall be counted from the time of his election by the Board of Directors to the time of election (reelection) of the Chairman of the Management Board three years later at the first meeting of the new Board of Directors (after the election of a new Board of Directors at the annual General Meeting of Shareholders).
- 17.6 In the event of early termination of the powers of the Chairman of the Management Board, the powers of the newly elected Chairman of the Management Board shall be effective until the election (reelection) of the Chairman of the Management Board at the first meeting of its new Board of Directors (after the election of a new Board of Directors at the annual General Meeting of Shareholders) 3 (three) years after the meeting of the Board of Directors at which the Chairman of the Board of Directors whose powers were terminated was elected.
- 17.7 The Management Board shall be the collective executive body of the Company and under the direction of the Chairman of the Management Board shall make decisions on the following matters pertaining to current management of the Company's activities in the period between General Meetings of Shareholders and meetings of the Board of Directors:
- 17.7.1 organization of the Company's accounting and reporting, preparation and submission of annual reports and balance sheets of the Company to the Board of Directors for approval;
 - 17.7.2 decisions on matters pertaining to interaction with suppliers of goods and services for the Company and with consumers of its products;
 - 17.7.3 establishment of prices, rates, and commissions under contracts with suppliers and consumers;

- 17.7.4 ensuring supplies of materials and equipment to the Company and supporting the sale of its products and services;
 - 17.7.5 keeping personnel records in accordance with current Russian legislation;
 - 17.7.6 monitoring the condition of buildings, premises, and equipment of the Company, as well as the movement of tangible and monetary valuables;
 - 17.7.7 the content and keeping of the Company's archives, ensuring clerical work and the work of the Company's office, and organization of document storage at the Company in accordance with current legislation;
 - 17.7.8 providing organizational and technical support for the activities of the General Meeting of Shareholders, the Board of Directors, and the Audit Committee;
 - 17.7.9 organizing the fulfillment of resolutions of the General Meeting of Shareholders and the Board of Directors;
 - 17.7.10 performance of orders and/or instructions of the Chairman of the Management Board in other matters associated with the current activities of the Company.
- 17.8 The Management Board shall consist of members of the Management Board, who shall be subordinate to the Chairman of the Management Board and act in accordance with the powers granted to them.
- 17.9 The Management Board shall be created with the number of members established by the Board of Directors. Members of the Management Board shall be appointed by the Board of Directors at the recommendation of the Chairman of the Management Board for a term of 3 (three) years.
- 17.10 The Management Board shall hold its meeting as necessary. Meetings of the Management Board shall be organized by the Chairman of the Management Board.
- The Chairman of the Management Board shall sign all documents in the Company's name and the minutes of meetings of the Management Board.
- A quorum for a meeting of the Management Board shall be the presence of at least half of the elected members of the Management Board. If the number of members of the Management Board becomes less than the number constituting the aforesaid quorum, the Board of Directors shall be obligated to appoint additional members to the Management Board.
- Assignment of the right to vote by one member of the Management Board to another person, including another member of the Management Board, is not permitted.
- 17.11 Minutes shall be kept at meetings of the Management Board. The minutes of a meeting of the Management Board shall be provided to members of the Board of Directors, the Audit Committee, and the Company's auditor at the request thereof.
- 17.12 The person performing the functions of Chairman of the Management Board and the members of the Management Board may simultaneously hold positions on the management bodies of other organizations only with the consent of the Board of Directors.
- 17.13 The Board of Directors is entitled at any time to adopt a resolution to terminate early the powers of the Chairman of the Management Board and members of the Management Board and to form new executive bodies of the Company.
- 17.14 Other rights and obligations of the Chairman of the Management Board and the members of the Management Board are defined by the JSC Law, other legal acts of the Russian Federation, and the contract made by each of them with the Company. The contract shall be signed on the Company's behalf by the Chairman of the Board of Directors or another person authorized by the Board of Directors.
- 17.15 Other matters pertaining to the activities of the Chairman of the Management Board and the Management Board may be determined by internal documents of the Company.

ARTICLE 18. Liability of members of the Board of Directors, the Chairman of the Management Board, temporary individual executive body of the Company, members of the Management Board, and employees of the Company.

- 18.1 The members of the Board of Directors, the Chairman of the Management Board, the members of the Management Board, and the specialists of the Company's administration in exercising their rights and performing duties shall act in the interests of the Company and exercise their rights and perform duties in relation to the Company reasonably and in good faith.
- 18.2 The members of the Board of Directors, the Chairman of the Management Board, the temporary individual executive body of the Company, the members of the Management Board, and the specialists of the Company's administration shall be liable to the Company for losses caused to the Company by their culpable actions (omissions) unless other grounds and extent of liability are established by federal laws.
- 18.3 The Company shall indemnify a member of the Board of Directors against third-party claims (including, but not limited to, actions brought by shareholders and/or other investors of the Company) made in connection with the reasonable and good-faith exercise by the member of the Board of Directors of his rights and performance of duties, except in cases when third-party claims are made in connection with a culpable act (action or omission) committed by the member of the Board of Directors against the interests of the Company.

ARTICLE 19. Accounting and reporting of the Company.

- 19.1 The Company is obligated to keep accounting records and submit financial reports in the manner established by the JSC Law and other legal acts of the Russian Federation.
- 19.2 The Company's financial year shall begin on January 1 and end on December 31. The first financial year (year of founding) of the Company shall begin on the date of state registration and end on December 31.
- 19.3 Liability for the organization, condition, and accuracy of accounting records at the Company and timely submission of the annual report and other financial statements to the appropriate bodies, and of information on the Company's activities to be provided to shareholders, creditors, and mass media shall be borne by the Chairman of the Management Board and members of the Management Board in accordance with the JSC Law, other legal acts of the Russian Federation, and the Company's charter.
- 19.4 The accuracy of data contained in the Company's annual report and annual financial statements must be confirmed by the Audit Committee. Before the Company publishes the documents specified in this clause, the Company is obligated to engage an auditor, who must be unassociated with the Company or its shareholders in respect of any property interests, to conduct an annual audit and confirm the annual financial statements.
- 19.5 The Company's annual report is subject to preliminary approval by the Board of Directors no later than 30 days before the date of the annual General Meeting of Shareholders.

ARTICLE 20. Storage of documents of the Company and provision of information.

- 20.1 In accordance with the requirements of current legislation the Company is obligated to store the following documents:
- 1) the agreement to create the Company;
 - 2) the Company's charter; revisions and additions thereto, registered in the established manner; the decision to create the Company; the certificate of state registration of the Company;
 - 3) documents confirming the Company's rights to property on its balance sheet;
 - 4) internal documents of the Company;
 - 5) the bylaw on a branch or representative office of the Company;
 - 6) annual reports;
 - 7) accounting documents;

- 8) financial statements;
 - 9) minutes of General Meetings of Shareholders (resolutions of a shareholder owning all voting shares of the Company) and meetings of the Board of Directors, the Audit Committee, and the Management Board;
 - 10) ballot papers; powers of attorney (copies of powers of attorney) to participate in the General Meeting of Shareholders;
 - 11) reports of independent appraisers;
 - 12) lists of affiliates of the Company;
 - 13) lists of persons entitled to participate in the General Meeting of Shareholders, of persons entitled to receive dividends, and other lists prepared by the Company for the exercise by shareholders of their rights in accordance with the requirements of the JSC Law;
 - 14) opinions of the Audit Committee, the Company's auditor, and state and municipal bodies responsible for financial oversight;
 - 15) issue prospectuses, issuer's quarterly reports, and other documents containing information subject to publication or other disclosure in accordance with the JSC Law and other federal laws;
 - 16) other documents provided for by the JSC Law, this charter, internal documents of the Company, and resolutions of the General Meeting of Shareholders, the Board of Directors, and management bodies of the Company, and documents provided for by legal acts of the Russian Federation.
- 20.2 The Company shall store the documents specified by clause 20.1 of this charter at the following address: 109028, Moscow, Yauzsky bulvar, d. 16/15, in the manner and for the periods established by the federal body of executive power for the securities market.
- 20.3 The Company is obligated to grant shareholders access to the documents specified by clause 20.1 of this charter. Access to accounting documents and minutes of meetings of the collective executive body shall be granted to a shareholder or shareholders owning in the aggregate at least 25 percent of the voting shares of the Company.
- 20.4 The documents specified by clause 20.1 of this charter shall be provided by the Company within 7 (seven) days of the submission of a corresponding request to inspect said documents in the premises of the Company's executive body. At the request of persons entitled to access documents specified by clause 20.1 of this charter, the Company is obligated to provide them with copies of such documents. At the request of a shareholder of the Company, copies of documents may be sent through the mail or by courier to the address specified by the shareholder. The fee charged by the Company for the provision of such copies may not exceed the cost of their preparation.
- 20.5 The Company is obligated to allow employees of state bodies, organizations, and institutions to inspect the documents specified by clause 20.1 of this charter, and other documents of the Company specified by legal acts of the Russian Federation, or for a fee to provide copies of documents, if such obligation is explicitly stipulated by current normative acts of the Russian Federation or follows from directive documents (decisions, order, etc.) of said bodies, organizations, and institutions, issued (adopted) in accordance with current Russian legislation. The transfer of documents of the Company or copies of documents for inspection to the persons specified in this clause shall take place at the place of storage of the documents. At the request of persons specified in this clause, copies of documents may be sent through the mail or by courier to the address specified by such persons. The fee established by the Company also may not exceed the cost of preparation of the documents and costs associated with the delivery of the documents through the email or by courier.
- 20.6 The provision by the Company of information and documents for inspection by other persons shall be done on the basis of a corresponding decision of a court (court of general jurisdiction, arbitration court, etc.), unless other occasions and grounds are provided by current Russian legislation, and in the manner prescribed by clause 20.5 of this charter.

- 20.7 Liability for the organization and storage of the Company's documents shall be borne by the Company's individual executive body, who in his orders shall, in accordance with this charter and current legislation, define procedures for the acceptance, storage, and issuance of documents of the Company (including the list of other documents) and the responsible employees of the Company carrying out the acceptance, storage, and issuance of documents of the Company.
- 20.8 For the purposes of implementing state social, economic, and tax policies, the Company shall ensure that documents of scientific and historical significance are transferred to the Central Records Office of Moscow in accordance with the list of documents agreed upon with the Mosarkhiv association, and store and use personnel-related documents in the established manner.

ARTICLE 21. Audit committee.

- 21.1 Supervision over the Company's financial and economic activities shall be carried out by an audit committee ("Audit Committee").
- 21.2 An Audit Committee composed of at least 7 (seven) persons shall be elected at the annual General Meeting of Shareholders for a term of 1 (one) year. Shares owned by members of the Board of Directors or by persons occupying positions on the Company's management bodies shall be disregarded for the purposes of voting in the election of members of the Audit Committee.
- 21.3 The term of office of the Audit Committee shall be counted from the time of its election by the annual General Meeting of Shareholders to the time of election (reelection) of an audit committee by the next annual General Meeting of Shareholders.
- 21.4 The powers of individual members or the entire membership of the Audit Committee may be terminated early pursuant to a resolution of the General Meeting of Shareholders on the grounds and in the manner established by internal documents of the Company.
- 21.5 If the number of members of the Audit Committee becomes less than half of the number specified by the Company's charter, the Board of Directors shall be obligated to call an extraordinary General Meeting of Shareholders for the purpose of electing a new Audit Committee. The remaining members of the Audit Committee shall perform their functions until a new Audit Committee is elected at the extraordinary meeting.
- 21.6 In the event that the powers of the Audit Committee are terminated early, the powers of the new Audit Committee shall be effective until the election (reelection) of a new Audit Committee by the annual General Meeting.
- 21.7 Any shareholder or any person nominated by a shareholder may be a member of the Audit Committee, provided, however, that members of the Audit Committee may not simultaneously be members of the Board of Directors, the individual executive body, or members of the Management Board or the liquidation committee.
- 21.8 The Audit Committee shall elect a chairman and a secretary from among its members.
- 21.9 A verification (audit) of the financial and economic activities of the Company shall be conducted on the results of the Company's activities for the year.
- 21.10 A verification (audit) of the financial and economic activities of the Company shall be conducted also at any time:
- 1) on the initiative of the Audit Committee;
 - 2) pursuant to a resolution of the General Meeting of Shareholders;
 - 3) on the initiative of the Board of Directors;
 - 4) by decision of the Chairman of the Management Board;
 - 5) at the request of a shareholder or shareholders of the Company owning in the aggregate at least 10 percent of the voting shares of the Company on all matters within the competence of the General Meeting on the date of submission of the request.

- 21.11 At the request of the Audit Committee, persons holding positions in the Company's management bodies shall be obligated to provide documents concerning the Company's financial and economic activities.
- 21.12 The Audit Committee has the right to demand that an extraordinary General Meeting of Shareholders be called, in the manner set forth in the Company's charter.
- 21.13 On the basis of the results of verification of the Company's financial and economic activities the Audit Committee shall prepare an opinion, which shall contain the following:
- 1) confirmation of the accuracy of data contained in reports and other financial documents of the Company;
 - 2) information on instances of violation of accounting and financial reporting procedures established by legal acts of the Russian Federation, and violations of legal acts of the Russian Federation in the carrying out of financial and economic activities.
- 21.14 Pursuant to a resolution of the General Meeting of Shareholders, members of the Audit Committee may be paid compensation for the period of performance of their duties and (or) be reimbursed for expenses associated with the performance of their duties. The amounts of such compensation and reimbursement shall be established by a resolution of the General Meeting of Shareholders.
- 21.15 Procedures for the activities of the Audit Committee in matters not contemplated by this charter may be defined by internal documents of the Company.

ARTICLE 22. Audit.

- 22.1 The Company's auditor (a citizen or auditing organization) shall conduct a verification of the financial and economic activities of the Company in accordance with the legal acts of the Russian Federation on the basis of a contract concluded with the auditor.
- 22.2 The General Meeting of Shareholders shall approve the company's auditor. The amount of payment for his services shall be set by the Board of Directors.
- 22.3 On the basis of the results of the verification of the Company's activities the Company's auditors shall prepare an opinion, which must contain the following:
- 22.3.1 confirmation of the accuracy of the data contained in reports and other financial documents of the Company;
 - 22.3.2 information on instances of violation of accounting and financial reporting procedures established by legal acts of the Russian Federation, and violations of legal acts of the Russian Federation in the carrying out of financial and economic activities.
- 22.4 An internal audit of the Company shall be conducted by the Audit Committee.

ARTICLE 23. Liquidation and reorganization of the Company.

- 23.1 The Company may be liquidated in the following cases.
- 23.1.1 pursuant to a resolution of the General Meeting of Shareholders;
 - 23.1.2 pursuant to a court decision in accordance with Russian Federation legislation.
- 23.2 In the event of the Company's liquidation, except in the case of liquidation pursuant to a court decision, the General Meeting of Shareholders shall create a liquidation committee, determine the procedure and periods for the conduct of liquidation, and establish the period for presentment of creditors' claims, which must be neither less than two months nor greater than three months from the time of the announcement of liquidation.

- 23.3 The liquidation committee shall conduct the liquidation and prepare a liquidation balance sheet. From the time of its appointment the liquidation committee shall assume performance of the functions of the Management Board and the Chairman of the Management Board. Thenceforth it shall be the Company's sole authorized representative in all matters pertaining to the Company's activities. After its creation the committee shall take the following actions: place in the official press corresponding to the Company's location a notice of its liquidation and the procedure and period for declaration of claims by creditors. The committee shall ensure that the notice is first published in the press no later than one week after the creation of the committee and repeat publication of such notice no earlier than 14 days and no later than 40 days afterward. The liquidation committee shall organize work to collect the Company's accounts receivable and identify creditors' claims.
- 23.4 In the event of reorganization of the enterprise, all documents (management, financial and economic, personnel-related, etc.) shall be handed over in accordance with the established rules to the successor organization.
- 23.5 If the monetary funds available to the Company undergoing liquidation are insufficient to satisfy creditors' claims, the liquidation committee shall effect the sale of other property of the Company at public auction in the manner established for the execution of court decisions. The proceeds from such sale shall be directed toward the satisfaction of creditors' claims.
- 23.6 If the Company's funds are insufficient to satisfy all obligations to creditors, the Company's funds shall be distributed among the creditors of the same priority in proportion to the total claims of creditors of that priority, determined in accordance with current legislation.
- 23.7 The Company shall be deemed to have been liquidated from the time a corresponding entry is made in the state register.
- 23.8 Terms and procedures for reorganization and liquidation that are not contemplated by this charter shall be regulated by current legislation.
- 23.9 In the absence of a successor, documents of scientific and historical importance shall be transferred to a records office for state storage; documents relating to personnel (orders, personal files and record cards, personal accounts, etc.) shall be transferred for storage to the records office of the administrative okrug in which the Company is located.

ARTICLE 24. Obligatory publication of information by the Company.

- 24.1 The Company is obligated to disclose:
- 1) the annual report of the Company and annual financial statements;
 - 2) the issue prospectus for shares of the Company, in cases provided for by legal acts of the Russian Federation;
 - 3) notice of the holding of a General Meeting of Shareholders in the manner specified by JSC Law;
 - 4) other information determined by the federal body of executive power for the securities market.
- 24.2 In the event of public placement of bonds or other securities by the Company, public disclosure of information shall be effected by the Company to the extent and in the manner established by the federal body of executive power for the securities market.

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Exhibit 4.1

U.S.\$150,000,000

LOAN AGREEMENT

Dated as of 14 May 2003

OPEN JOINT STOCK COMPANY WIMM-BILL-DANN FOODS

as Borrower

and

UBS (LUXEMBOURG) S.A.

as Lender

CLEARY, GOTTlieb, STEEN & HAMILTON

City Place House,
55 Basinghall Street,
London EC2V 5EH

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THIS AGREEMENT is dated 14 May 2003

BETWEEN:

- (1) **OPEN JOINT STOCK COMPANY WIMM-BILL-DANN FOODS**, an open joint stock company organised under the laws of the Russian Federation (the "**Borrower**"); and
- (2) **UBS (LUXEMBOURG) S.A.**, a bank established under the laws of Luxembourg and whose registered office is 36-38 Grand rue, L-1660 Luxembourg, Luxembourg (the "**Lender**").

IT IS AGREED:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement the following terms have the meanings given to them in this Clause 1.1:

"**Acceleration Notice**" has the meaning set forth in Clause 15.2 (*Rights of Lender upon occurrence of an Event of Default*).

"**Account**" means an account of the Lender with The Bank of New York, account number 8397608400.

"**Additional Amounts**" has the meaning set forth in Clause 8.1(b) (*Additional Amounts*).

"**Affiliate**" of any specified Person means any other Person, directly or indirectly controlling, controlled by, or under direct or indirect common control with, such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; provided that beneficial ownership of 10 per cent. or more of the Capital Stock with voting power of a Person shall be deemed to be control.

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not).

"**Asset Sale**" means any lease, sale, sale and lease-back, transfer or other disposition (excluding any transaction by way of merger falling within Clause 14.6 (*Mergers and Similar Transactions*)) either in one transaction or in a series of related transactions, by the Borrower or any of its Subsidiaries to a Person that is not part of the Group, of any assets the value of which exceeds 10 per cent. of the total net assets of the Group in any 12-month period; provided that "Asset Sale" shall not include sales or other dispositions of inventory, receivables or other current assets in the ordinary course of business.

"**Board of Directors**" means, as to any Person, the board of directors of such Person or any duly authorised committee thereof.

"**Borrower**" means the party named as such above until a successor replaces it in accordance with Clause 14.6 (*Mergers and Similar Transactions*) and thereafter means such successor.

"**Business Day**" means any day (other than a Saturday or Sunday) on which banks generally are open for business in New York City, Luxembourg and London.

"**Capital Adequacy Requirement**" means a request or requirement relating to the maintenance of capital, including one which makes any change to, or is based on any alteration in, the interpretation of the International Convergence of Capital Measurement and Capital Standards (the Basle Capital Accord prepared by the Basle Committee on Banking Regulations and Supervision, dated July 1988, and amended in November 1991) or which increases the amounts of capital required thereunder, other than a request or requirement made by way of implementation of the International Convergence of Capital Measurement and Capital Standards in the manner in which it is being implemented at the date hereof.

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) or such Person's equity, including any preferred stock of such Person, whether now outstanding or issued after the date hereof, including without limitation, all series and classes of such Capital Stock.

"**Change of Control**" means such time as any Person, other than an Excluded Person or Excluded Group, whether acting alone or together with other Persons, other than Excluded Persons or Excluded

Groups: (i) is or becomes interested, directly or indirectly, in the aggregate of more than 50 per cent. of the Capital Stock with voting power of the Borrower, whether by virtue of issuance, sale or other disposition of such Capital Stock with voting power of the Borrower, a merger or a transaction having a similar effect involving the Borrower or such Person or Persons or any voting trust agreement or other agreement to which the Borrower or any such Person or Persons is or are a party or subject, or (ii) has or acquires the right to appoint or remove a majority of the Borrower's board of directors, or (iii) has or acquires control of a majority of the voting rights in the Borrower, in each case in circumstances where, solely as a result of any such event as specified by the Rating Agencies, a Rating Decline would result.

"Change of Control Payment Date" means the date specified as such in the notice from the Borrower to the Lender pursuant to Clause 7.3(b) (*Prepayment in the event of a Change of Control*).

"Change of Law" means any of the enactment or introduction of any new law, the variation, amendment or repeal of an existing or new law, and any ruling on or interpretation or application by a competent authority of any existing or new law which, in each case, occurs after the date hereof and for this purpose the word "law" means all or any of the following whether in existence at the date hereof or introduced hereafter and with which it is obligatory or customary for banks or other financial institutions or, as the case may be, companies in the relevant jurisdiction to comply:

- (i) any statute, treaty, order, decree, instruction, letter, directive, instrument, regulation, ordinance or similar legislative or executive action by any national or international or local government or authority or by any ministry or department thereof and other agencies of state power and administration (including, but not limited to, taxation departments and authorities); and/or
- (ii) any letter, regulation, decree, instruction, request, notice, guideline, directive, statement of policy or practice statement given by, or required of, any central bank or other monetary authority, or by or of any Taxing Authority or fiscal or other authority or agency (whether or not having the force of law); and

the decision or ruling on, the interpretation or application of, or a change in the interpretation or application of, any of the foregoing by any court of law, tribunal, central bank, monetary authority or agency or any Taxing Authority or fiscal or other competent authority or agency.

"Consolidated EBITDA" means operating profit or operating loss before depreciation and amortisation as calculated in accordance with the consolidated financial statements of the Borrower prepared in accordance with U.S. GAAP. Consolidated EBITDA shall be calculated for the four quarters immediately prior to the last reporting date and, in the case of an acquisition of any Subsidiary or any transaction by way of merger falling within Clause 14.6 (*Mergers and Similar Transactions*), Consolidated EBITDA shall be calculated as if such Subsidiary were acquired or such transaction by way of merger were completed on the first date of such four quarter period.

"Credit Facilities" means one or more credit agreements, loan agreements or similar facilities with banks or other institutional lenders, providing for revolving credit loans, term loans (including receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables)), bankers' acceptances or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time.

"Default" means any event that is, or after any notice or passage of time or both would be, an Event of Default.

"Dispute" has the meaning set forth in Clause 25.7 (*Arbitration*).

"Event of Default" has the meaning set forth in Clause 15.1 (*Circumstances which constitute Events of Default*).

"Excluded Group" means a "group" (as such term is used in Sections 13(d) and 14(d) of the United States Securities Exchange Act of 1934 (the "Exchange Act")) that includes one or more Excluded Persons; provided that the voting power of the Capital Stock of the Borrower "beneficially owned" (as such term is used in Rule 13(d)-3 promulgated under the Exchange Act) by such Excluded Persons (without attribution to such excluded Persons of the ownership by other member or members of the "group") represents a majority of the voting power of the Capital Stock "beneficially owned" (as such term is used in Rule 13(d)-3 promulgated under the Exchange Act) by such group.

"Excluded Person" means Gavril A. Yushavaev, Mikhail V. Dubinin, Sergei A. Plastinin, Alexander S. Orlov and David Iakobachvili.

"Fair Market Value" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors of the Borrower or any Subsidiary of the Borrower, as the case may be (including a majority of the disinterested directors, if any) whose determination shall be conclusive if evidenced by a resolution of such Board of Directors.

"Fee Letter" means the letter from the Lender to the Borrower, dated 14 May 2003, setting out certain fees payable by the Borrower in connection with the Loan and the agreed funding source.

"Guarantee" means a deed of guarantee dated 14 May 2003 between the Guarantors and the Lender as the same may be amended or supplemented from time to time, including any further guarantees that may be granted in respect of the Borrower's obligations under this Loan Agreement from time to time.

"Guarantors" means (i) initially OAO Lianozovo Dairy Plant, OAO Tsaritsino Dairy Plant and ZAO Trade Company Wimm-Bill-Dann and (ii) after the date hereof the Borrower's Subsidiaries from time to time guaranteeing the obligations of the Borrower under the Loan Agreement and "Guarantor" means any of the Guarantors.

"Group" means the Borrower and its Subsidiaries taken as a whole.

"Hedging Obligations" means: (i) the obligations of any Person pursuant to any interest rate protection agreement (including, without limitation, interest rate swaps, caps, floors, collars, derivative instruments and similar agreements) and/or other types of interest hedging arrangements; and/or (ii) any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party.

"Indebtedness" means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto);
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property, assets or services, which purchase price is due more than six months after the earlier of the date of placing such property in service or taking delivery and title thereof or the completion of such services;
- (5) all capitalised lease obligations of such Person;
- (6) all Indebtedness of other Persons secured by a Lien granted by such Person on any asset (the value of which, for these purposes, shall be determined by reference to the balance sheet in respect of the latest financial quarter of the Person providing the Lien) of such Person, whether or not such Indebtedness is assumed by such Person (but disregarding for this purpose Liens granted by a Subsidiary in favour of the Borrower or another Subsidiary or by the Borrower in favour of a Subsidiary, with respect to the property or assets, or any income or profits therefrom, of the Borrower or such Subsidiary);
- (7) all Indebtedness of other Persons guaranteed by such Person to the extent such Indebtedness is guaranteed by such Person; and
- (8) to the extent not otherwise included in this definition, net obligations under any currency or interest rate hedging agreements.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations as described above, the maximum liability upon the occurrence of the contingency giving rise to the obligation; provided:

- (A) that the amount outstanding at any time of any Indebtedness issued with original discount is the face amount of such Indebtedness less the remaining unamortised portion of the original issue discount of such Indebtedness at such time as determined in conformity with U.S. GAAP;

- (B) that Indebtedness shall not include Trade Payables, prepayments received on account of agreed sales and accrued current liabilities arising in the ordinary course of business, except those that are overdue;
- (C) that Indebtedness shall not include grants to the Borrower from the Russian Government and/or any Russian local authority which do not need to be repaid but are still recorded as a liability in the Borrower's consolidated balance sheet;
- (D) that Indebtedness shall not include any amounts guaranteed by the Borrower in respect of the debt of any Subsidiary or any amounts guaranteed by any Subsidiary in respect of the debt of the Borrower or any other Subsidiary or owed by the Borrower to any one or more of its Subsidiaries or amounts owed by any Subsidiary of the Borrower to any one or more of its other Subsidiaries or the Borrower;
- (E) that Indebtedness shall not include any liability for federal, state, local or other Taxes; and
- (F) that Indebtedness shall not include obligations of any Persons (x) arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument inadvertently drawn against insufficient funds (which, for the avoidance of doubt, shall not include funds drawn against an overdraft facility of such Person) in the ordinary course of business; provided that such obligations are extinguished within two Business Days of their incurrence, (y) resulting from the endorsement of negotiable instruments for collection in the ordinary course of business and consistent with past business practices and (z) under stand-by letters of credit or guarantees to the extent collateralised by cash or cash equivalents.

"Interest Payment Date" means May 21 and November 21 of each year in which the Loan remains outstanding, being the last day of the corresponding Interest Period, commencing on 21 November 2003, and the last such date being the Repayment Date.

"Interest Period" means, except as otherwise provided herein, any of those periods mentioned in Clause 4 (*Interest Periods*).

"Interest Rate" means, except as otherwise provided herein, the interest rate specified in Clause 5.2 (*Calculation of Interest*).

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof, any sale with recourse against the seller or any Affiliate of the seller, or any agreement to give any security interest).

"Loan" means the U.S. \$150,000,000 term loan granted to the Borrower by the Lender in this Agreement.

"Luxembourg" means the Grand Duchy of Luxembourg.

"Material Adverse Effect" means any material adverse effect on the business, financial condition or results of operations of the Borrower and its Subsidiaries taken as a whole.

"Officer" means, with respect to a Person, the Chairman of the Board of Directors, the General Director, the Chief Executive Officer, the President, the Chief Financial Officer, the Controller, the Treasurer or the General Counsel of such Person.

"Officers' Certificate" means a certificate signed by two Officers of the Borrower.

"Permitted Liens" means:

- (1) Liens securing the Loan;
- (2) Liens granted by a Subsidiary in favour of the Borrower or another Subsidiary or by the Borrower in favour of a Subsidiary, with respect to the property or assets, or any income or profits therefrom, of the Borrower or such Subsidiary, as the case may be;
- (3) any Lien existing on the date of this Agreement;
- (4) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, material men, repairmen or other similar Liens arising in the ordinary course of business;

- (5) any Lien on any property or assets of any Person existing at the time such Person is acquired, merged or consolidated with or into the Borrower or any of its Subsidiaries and not created in contemplation of such event; provided that no such Lien shall extend to any other property or assets of such Person or to any other property or assets of the Subsidiaries of such Person or the Borrower or any of its Subsidiaries;
- (6) any Lien existing on any property or assets prior to the acquisition thereof by the Borrower or any of its Subsidiaries and not created in contemplation of such acquisition; provided that no such Lien shall extend to any other property or assets or any property or assets of the Borrower or any of its Subsidiaries;
- (7) any Lien on any property or assets securing Indebtedness of the Borrower or any of its Subsidiaries incurred or assumed for the sole purpose of Vendor Financing (including bank financing arranged by a vendor for the sole purpose of Vendor Financing); provided that (i) no such Lien shall extend to any other property or assets of the Borrower or any of its Subsidiaries other than the assets affixed thereto and the proceeds thereof, (ii) the aggregate principal amount of all Indebtedness secured by Liens on such property or assets does not exceed the purchase price of such property or assets and (iii) such Lien attaches to such property or assets within 90 days after the acquisition thereof;
- (8) any Lien securing Hedging Obligations so long as the related Indebtedness is permitted to be incurred under this Agreement and any such Hedging Obligation is not speculative;
- (9) any extension, renewal or replacement of any Lien described in clauses (1) to (8) above, provided that (i) such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien, (ii) the amount of Indebtedness secured by such Lien is not increased and (iii) if the property or assets securing the Indebtedness subject to such Lien are changed in connection with such refinancing, extension or replacement, the Fair Market Value of such property or assets is not increased;
- (10) any Lien on the property or assets of the Borrower or any Subsidiaries of the Borrower securing Indebtedness of the Borrower or such Subsidiaries incurred under one or more Credit Facilities in an aggregate principal amount outstanding at any one time not to exceed 15 per cent. of the total assets of the Group determined by reference to the latest consolidated balance sheet of the Group; and
- (11) any Lien arising solely by operation of law which is discharged within 45 days of arising.

"**Person**" means any individual, corporation, partnership, joint venture, trust unincorporated organisation or government or any Agency or political subdivision thereof.

"**Proceedings**" has the meaning set forth in Clause 25.2 (*English Courts*).

"**Qualifying Jurisdiction**" means any jurisdiction the transfer or assignment of the Loan (or any rights, benefits and/or obligations hereunder) to which would not cause the Borrower to provide payments of Additional Amounts or Tax Indemnity Amounts when interest, principal and any other amounts paid under this Loan Agreement is paid to or from such jurisdiction.

"**Rating Agencies**" means Moody's Investors Service Limited ("**Moody's**") or any successor to its rating agency business and Standard & Poor's Ratings Services, a division of McGraw-Hill Companies, Inc. ("**S&P**") or any successor to its rating agency business or any other rating agency that provides a corporate credit rating of the Borrower or a credit rating in respect of the Loan or of any instruments issued to the agreed funding source, if applicable.

"**Rating Categories**" means (1) with respect to S&P, any of the following categories (any of which may include a "+" or "-"): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (2) with respect to Moody's, any of the following categories (any of which may include a "1," "2" or "3"): Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories), and (3) the equivalent of any such categories of S&P or Moody's used by another rating agency, if applicable.

"**Rating Decline**" means that at any time within 90 days (which period shall be extended so long as the corporate credit rating of the Borrower or the credit rating in respect of the Loan or of any instruments issued to the agreed funding source is under publicly announced consideration for possible downgrade by any Rating Agency) after the date of public notice of any transaction or series of transactions, or of the intention of the Borrower or of any Person to effect such a transaction or series of transactions, the corporate rating of the Borrower or the rating of the Loan or of any instruments issued to the agreed funding source is decreased by both or, if such ratings are at the relevant time provided by more than two

Rating Agencies, by the majority of the relevant Rating Agencies by one or more Rating Categories as a result of such transaction or series of transactions, as specified by both or, if such ratings are at the relevant time provided by more than two Rating Agencies, by the majority of the relevant Rating Agencies.

"**Related Person**" of any Person means any other Person directly or indirectly owning:

- (1) 5 per cent. or more of the outstanding Capital Stock with voting power of such Person (or, in the case of a Person that is not a corporation, 5 per cent. or more of the equity interest in such Person); or
- (2) 5 per cent. or more of the combined voting power of the Capital Stock with voting power of such Person.

"**Repayment Date**" means the fifth anniversary of the date on which the Loan is made hereunder referred to in Clause 3 (*Availability of the Loan*), or if such day is not a Business Day, the next succeeding Business Day.

"**Russia**" shall mean the Russian Federation and any province or political subdivision or Agency thereof or therein, and "*Russian*" shall be construed accordingly.

"**Russian GAAP**" means the rules set by Federal Law «On Accounting» (No. 129-FZ of November 21, 1996, as amended), the Regulation on Accounting and Reporting in the RF, approved by Order No. 34n of July 29, 1998, of the RF Ministry of Finance; the Accounting Regulation "Financial Statement of an Organisation" (PBU/499), approved by Order No. 43n of July 6, 1999, of the RF Ministry of Finance; and other normative acts of the Russian Federation regulating accounting procedures and the preparation of financial statements.

"**Securities Act**" means the United States Securities Act of 1933, as amended.

"**Side Letter**" means each of the letters, dated the date hereof, from the Borrower to the Lender and from the Guarantors to the Lender.

"**Significant Subsidiary**" means (i) at the date hereof and on the date of the making of the Loan: OAO Lianozovo Dairy Plant, OAO Tsaritsino Dairy Plant, ZAO Trade Company Wimm-Bill-Dann, OAO Moscow Baby Food Plant, OAO Ramenskiy Dairy Plant and OAO Timashevsk Dairy Plant and (ii) at any other date of determination any Subsidiary that:

- (A) for the most recent fiscal year of the Borrower, accounted for more than 5 per cent. of the consolidated revenues of the Borrower and its Subsidiaries;
- (B) as of the end of such fiscal year, was the owner of more than 5 per cent. of the consolidated assets of the Borrower and its Subsidiaries, all as set forth in the most recently available consolidated financial statements of the Borrower for such fiscal year; or
- (C) to which are transferred all or substantially all the assets and undertaking of a Subsidiary which immediately prior to such transfer is a Significant Subsidiary.

For the avoidance of doubt, the term "Significant Subsidiary" shall be deemed to include each Guarantor.

"**Stated Maturity**" means:

- (1) with respect to any Indebtedness, the date specified in such Indebtedness as the fixed date on which the final instalment of principal of such Indebtedness is due and payable; and
- (2) with respect to any scheduled instalment of principal of or interest on any Indebtedness, the date specified in such Indebtedness as the fixed date on which such instalment is due and payable.

"**Subsidiary**" means, with respect to any Person, (i) a corporation more than 50 per cent. of whose Capital Stock with voting power, under ordinary circumstances, to elect directors is at the time, directly or indirectly, owned by such Person, by such Person and one or more Subsidiaries of such Person or by one or more Subsidiaries of such Person, or (ii) a partnership in which such Person or a Subsidiary of such Person is, at the time, a general partner, or (iii) any other Person in which such Person, one or more Subsidiaries of such Person, or such Person and one or more Subsidiaries of such Person, directly or indirectly, at the date of determination thereof has (x) over a 50 per cent. ownership interest or (y) the power to elect or direct the election of a majority of the directors, members of the board of directors or other governing body of such Person. For the avoidance of doubt, the term "Subsidiary" shall be deemed to include each Guarantor.

"**Taxes**" has the meaning set out in Clause 8.1 (*Additional Amounts*).

"**Tax Indemnity Amounts**" has the meaning set out in Clause 8.3 (*Tax Indemnity*).

"**Taxing Authority**" has the meaning set out in Clause 8.1 (*Additional Amounts*).

"**Trade Payables**" means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or guaranteed by such Person or guaranteed by any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

"**unpaid sum**" has the meaning set forth in Clause 16.1 (*Default Interest Periods*).

"**U.S. GAAP**" means U.S. generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board and statements and pronouncements of the Financial Accounting Standards Board ("**FASB**") or, if FASB ceases to exist, any successor thereto; provided, however, that for purposes of determining compliance with this Agreement, "U.S. GAAP" means such generally accepted accounting principles as in effect on the date hereof.

"**Vendor Financing**" means any indebtedness of any Person owed to a vendor of materials or equipment for use in connection with the business of the Group in respect of or arising under or in connection with the supply of such materials or equipment by such vendor to such Person.

Other Definitions:

"**agreed funding source**" shall mean any Person to whom the Lender owes any Indebtedness (including securities), which Indebtedness was incurred solely and expressly to fund the Loan (including a designated representative of such Person);

the "**equivalent**" on any given date in one currency (the "**first currency**") of an amount denominated in another currency (the "**second currency**") is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is (i) roubles and the second currency is (ii) U.S. dollars, or as the case may be euro (or vice versa), by the Central Bank of Russia, at or about noon (London time, Brussels time or Moscow time (as applicable) on such date for the purchase of the first currency with the second currency;

the "**Lender**" shall be construed so as to include it and any of its subsequent successors, assignees and chargees in accordance with their respective interests;

"**repay**" (or any derivative form thereof) shall, subject to any contrary indication, be construed to include "prepay" (or, as the case may be, the corresponding derivative form thereof); and

"**VAT**" shall be construed as a reference to value added tax including any similar tax which may be imposed in place thereof from time to time.

1.2 Interpretation

Unless the context otherwise requires,

- (a) a term has the meaning assigned to it;
- (b) an accounting term not otherwise defined has the meaning assigned to it in accordance with U.S. GAAP consistently applied;
- (c) "or" is not exclusive;
- (d) words in the singular include the plural, and words in the plural include the singular;
- (e) provisions apply to successive events and transactions;
- (f) references to sections of or rules under the Securities Act shall be deemed to include substitute, replacement or successor sections or rules adopted by the Commission from time to time;
- (g) references to "U.S.\$" or "U.S. dollars" are to United States dollars and references to "Roubles" are to Russian roubles; and
- (h) references to the "Guarantee" are to the Guarantee which may exist from time to time in accordance with the provisions hereof; in the event that no such Guarantee exists at any time, the relevant provisions and references in this Agreement shall be deemed to be amended accordingly.

1.3 Statutes

Any reference in this Agreement to a statute shall be construed as a reference to such statute as the same may have been, or may from time to time be, amended or re-enacted.

1.4 Headings

Clause and Schedule headings are for ease of reference only.

1.5 Amended Documents

Except where the contrary is indicated, any reference in this Agreement to this Agreement, the Guarantee, the Fee Letter or any other agreement or document shall be construed as a reference to this Agreement, the Guarantee, the Fee Letter or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented.

2. THE LOAN

The Lender grants to the Borrower, upon the terms and subject to the conditions hereof, a single disbursement term loan facility in the amount of U.S. \$150,000,000.

3. AVAILABILITY OF THE LOAN

The Loan will be available by way of a single advance which will be made by the Lender to the Borrower, and the Borrower will draw down the Loan, on 21 May 2003, or such later date as may otherwise be agreed by the parties to this Agreement, if:

- (1) the Lender has not, prior to 21 May 2003, or such later date as may otherwise be agreed by the parties to this Agreement, notified the Borrower that it has not received the condition precedent documents as listed in the agreements entered into in connection with the agreed funding source in form and substance satisfactory to the Lender;
- (2) the Lender has received funding of the Loan from the agreed funding source; and
- (3) no event has occurred or circumstance arisen which would, whether or not with the giving of notice and/or the passage of time constitute an event described under Clause 15 (*Events of Default*) and the representations set out in Clause 11 (*Representations and Warranties of the Borrower*) and the representations of each of the Guarantors set out in the Guarantee are true and accurate in all material respects on and as of the proposed date for the making of the Loan.

4. INTEREST PERIODS

The period for which the Loan is outstanding shall be divided into successive semi-annual periods, ending on and excluding 21 May and 21 November, each of which, other than the first (which shall commence on, and shall include, 21 May 2003) shall start on, and shall include, the last day of the preceding such period (each, an "**Interest Period**").

5. PAYMENT AND CALCULATION OF INTEREST

5.1 Payment of Interest

Not later than 10.00am (New York City time) one Business Day prior to each Interest Payment Date, the Borrower shall pay to the Account all accrued and unpaid interest, any Additional Amounts, and any Tax Indemnity Amounts, calculated to the last day of each Interest Period, on the outstanding principal amount of the Loan.

5.2 Calculation of Interest

The amount of interest payable for any Interest Period shall be calculated by applying the rate of 8.5 per cent. per annum (the "**Interest Rate**") to the amount of the Loan, dividing the product by two and rounding the resulting figure to the nearest cent, half a cent being rounded upwards. When interest is required to be calculated for any other period, it shall be calculated on the basis of a 360 day year consisting of 12 months of 30 days each, and in the case of an incomplete month, the actual number of days elapsed.

6. REPAYMENT

Subject to Clause 15.2 (*Rights of Lender upon occurrence of an Event of Default*), not later than 10:00 am (New York City time) one Business Day prior to the Repayment Date, the Borrower shall repay in full the outstanding principal amount of the Loan and, to the extent not already paid in accordance with Clause 5.1 (*Payment of Interest*), all accrued and unpaid interest, any Additional Amounts, and any Tax Indemnity Amounts, calculated to the last day of the last Interest Period.

7. PREPAYMENT

7.1 Prepayment for Tax Reasons

If, as a result of the application of or any amendment or clarification to, or change (including a change in interpretation or application) in, or determination under, the double taxation treaty between Russia and Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) or the laws or regulations of Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) or of any political sub-division thereof or any Agency therein, the Borrower would thereby be required to pay any Additional Amounts in respect of Taxes pursuant to Clause 8.1 (*Additional Amounts*), or pay any Tax Indemnity Amounts pursuant to Clause 8.3 (*Tax Indemnity*), then the Borrower may (without premium or penalty), upon not less than 30 calendar days' written irrevocable notice to the Lender (and, following the execution of the agreements entered into in connection with the agreed funding source, to the party designated by such agreements) including an Officers' Certificate of the Borrower, to the effect that the Borrower would be required to pay such Additional Amounts or Tax Indemnity Amounts prepay the Loan in whole (but not in part) at any time together with all accrued and unpaid interest, any Additional Amounts and any Tax Indemnity Amounts; provided, however, that no such notice shall be given earlier than 90 calendar days prior to the earliest date on which the Borrower would be obligated to pay such Additional Amounts or Tax Indemnity Amounts, as the case may be.

7.2 Prepayment for Reasons of Increased Costs

The Borrower may, if it is required to make any payment by way of indemnity under Clause 10.1 (*Increased Costs*), subject to giving to the Lender not less than 30 calendar days' prior written notice to that effect (without premium or penalty), prepay the whole, but not part only, of the amount of the Loan, together with any amounts then payable under Clause 10.1 (*Increased Costs*) and accrued and unpaid interest, any Additional Amounts and Tax Indemnity Amounts, if any.

7.3 Prepayment in the event of a Change of Control

- (a) In the event of a Change of Control, the Borrower shall be required to prepay the Loan on the Change of Control Payment Date to the extent and in the amount that the Lender is required to pay the agreed funding source as a result thereof as set forth in a written notice by the Lender to the Borrower, including computation of such amount, given at least two Business Days prior to the Change of Control Payment Date.
- (b) Promptly, and in any event within 10 calendar days after the date of any Change of Control, the Borrower shall deliver to the Lender (and, following the execution of the agreements entered into in connection with the agreed funding source, to the party designated by such agreements) a written notice in the form of an Officers' Certificate, which notice shall be irrevocable (but may, in respect of subclause (iii), be amended), stating:
 - (i) that a Change of Control has occurred;
 - (ii) the Change of Control Payment Date, which date shall be a Business Day occurring 60 calendar days from the date such notice is delivered; and
 - (iii) the circumstances and relevant facts giving rise to such Change of Control, including, to the extent available, information with respect to pro forma historical income, cash flow and capitalisation for the most recent complete financial period that is subject to a review by auditors, each after giving effect to such Change of Control and events causing such Change of Control, and the date upon which such Change of Control is deemed to have occurred.

- (c) On the Business Day prior to the Change of Control Payment Date, the Borrower shall deposit in the Account an amount in cash equal to the amount payable hereunder to the Lender by the Borrower.

7.4 Notice of Prepayment

Without prejudice to any other requirement in this Agreement, any notice of prepayment given by the Borrower pursuant to Clause 7.1 (*Prepayment for Tax Reasons*) or Clause 7.2 (*Prepayment for Reasons of Increased Costs*) hereof, shall be irrevocable, shall specify the date upon which such prepayment is to be made and shall oblige the Borrower to make such prepayment one Business Day prior to such date.

7.5 Costs of Prepayment

The Borrower shall, on the date of prepayment, pay all accrued and unpaid interest, any Additional Amounts and any Tax Indemnity Amounts (each only with respect to the amount subject to such prepayment), as of such date of prepayment and all other amounts payable to the Lender hereunder in connection with such prepayment. The Borrower shall indemnify the Lender on demand against any costs and expenses reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 7 (*Prepayment*).

7.6 No Other Repayments

The Borrower shall not repay the whole or any part of the amount of the Loan except at the times and in the manner expressly provided for in this Agreement.

7.7 Purchase of Instruments Issued to the Agreed Funding Source

The Borrower and its Subsidiaries may purchase instruments issued to the agreed funding source at any time in the open market or otherwise. If such instruments are surrendered by the Borrower or any of its Subsidiaries to the Lender, as issuer of such instruments, for cancellation (together with an authorisation addressed to the agent of the agreed funding source to cancel such instruments), the Lender shall credit the Borrower with the prepayment of an amount of the Loan equal to the principal amount of such cancelled instruments.

8. TAXES

8.1 Additional Amounts

- (a) Subject to Clause 8.1(b), all payments made by the Borrower under or with respect to the Loan will be made free and clear of, and without withholding or deduction for, or on account of any present or future tax, duty, levy, impost, assessment, or other governmental charge (including penalties, interest and other liabilities related thereto) (collectively, "**Taxes**") imposed or levied by or on behalf of any government or political subdivision or territory or possession of any government or authority or Agency therein or thereof having the power to tax (each, a "**Taxing Authority**") within Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), unless the Borrower is required to withhold or deduct Taxes by law or by the interpretation or administration thereof. For the avoidance of doubt, this Clause 8.1 shall not apply to any taxes on income payable by the Lender.
- (b) If at any time the Borrower is required to withhold or deduct any amount for or on account of Taxes imposed or levied by or on behalf of any Taxing Authority within Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) from any payment made under or with respect to the Loan, the Borrower shall, on the due date for such payment, pay such additional amounts ("**Additional Amounts**") as may be necessary so that the net amount received by the Lender (including Additional Amounts) in U.S. dollars after such withholding or deduction will not be less than the amount the Lender would have received if such Taxes had not been withheld or deducted and free from liability in respect of such withholding or deduction; provided, however, that for the avoidance of doubt, such Additional Amounts shall not be payable with respect to any Taxes on income payable by the Lender.

- (c) The Borrower will also:
- (i) make such withholding or deduction; and
 - (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law.
- (d) If the Lender pays any amount in respect of such Taxes in respect of which Additional Amounts are payable (without prejudice to, and duplication of, the provisions of Clause 8.3 (*Tax Indemnity*)), the Borrower shall reimburse the Lender in U.S. dollars for such payment on demand.
- (e) Whenever this Agreement mentions, in any context, the payment of amounts based upon the principal or premium, if any, interest or of any other amount payable under or with respect to the Loan, this includes, without duplication, payment of any Additional Amounts and Tax Indemnity Amounts that may be applicable.

The foregoing provisions shall apply, modified as necessary, to any Taxes imposed or levied by any Taxing Authority in any jurisdiction in which any successor of the Borrower is organised.

8.2 Payments

The Lender shall assist the Borrower in ensuring that all payments made under this Agreement are exempt from deduction or withholding of Tax.

8.3 Tax Indemnity

Without prejudice to, and without duplication of, the provisions of Clause 8.1 (*Additional Amounts*),

- (a) if at any time the Lender makes or is required to make any payment to a Person (other than to or for the account of the agreed funding source) on account of Tax (other than Taxes on income payable by the Lender) in respect of the Loan or in respect of any instruments issued to, or documents entered into with, the agreed funding source imposed by any Taxing Authority of or in Russia, Luxembourg or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes, or any liability in respect of any such Tax is asserted, imposed, levied or assessed against the Lender, the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender, indemnify the Lender against such payment or liability, together with any interest, penalties, costs and expenses payable or incurred in connection therewith; and
- (b) if at any time a Taxing Authority imposes an obligation on the Lender to withhold or deduct any amount on any payment made or to be made by the Lender to or for the account of the agreed funding source and the Lender is required by any instruments issued to, or documents entered into with, the agreed funding source, to pay additional amounts to such agreed funding source in connection therewith, the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender, pay to the Lender such additional amounts as may be necessary so that the net amount received by the agreed funding source (including such additional amounts) in U.S. dollars after such withholding or deduction will not be less than the amount such agreed funding source would have received if such withholdings or deductions had not been made and free from liability in respect of such withholding or deduction.

Any payments required to be made by the Borrower under this Clause 8.3 are collectively referred to as "**Tax Indemnity Amounts**". For the avoidance of doubt, the provisions of this Clause 8.3 shall not apply to any withholding or deductions of Taxes with respect to the Loan which are subject to payment of Additional Amounts under Clause 8.1 (*Additional Amounts*).

8.4 Tax Claims

If the Lender intends to make a claim for any Tax Indemnity Amounts pursuant to Clause 8.3 (*Tax Indemnity*), it shall notify the Borrower thereof; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

8.5 Tax Credits and Tax Refunds

- (a) If any Additional Amounts are paid under Clause 8.1 (*Additional Amounts*) or Tax Indemnity Amounts are paid under Clause 8.3 (*Tax Indemnity*) by the Borrower for the benefit of the Lender and the Lender, in its reasonable opinion, determines that it has received or been granted a credit against, a relief or remission for, or a repayment of, any Tax, then, if and to the extent that the Lender, in its reasonable opinion, determines that such credit, relief, remission or repayment is in respect of or calculated with reference to the deduction or withholding giving rise to such Additional Amounts or, in the case of Tax Indemnity Amounts, with reference to the liability, expense or loss to which the payment giving rise to such Tax Indemnity Amounts relates, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower such amount as the Lender shall, in its reasonable opinion, have concluded to be attributable to such deduction or withholding or, as the case may be, such liability, expense or loss; provided that the Lender shall not be obliged to make any payment under this Clause 8.5 in respect of such credit, relief, remission or repayment until the Lender is, in its reasonable opinion, satisfied that its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled. Any such payment shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or prepayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to the Borrower hereunder and shall be accepted by the Borrower in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding. Nothing contained in this Clause 8.5 shall interfere with the right of the Lender to arrange its tax affairs generally in whatever manner it thinks fit nor oblige the Lender to disclose any information relating to its tax affairs generally or any computations in respect thereof.
- (b) If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed by Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) (i) such Tax is deducted or withheld by the Borrower and pursuant to Clause 8.1 (*Additional Amounts*) an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding, and (ii) following the deduction or withholding of Tax as referred to above, (A) the Borrower applies on behalf of the Lender to the relevant Russian Taxing Authorities for a tax refund and such tax refund is credited by the Russian Taxing Authorities to the Lender or (B) if such tax refund is otherwise credited by a relevant Taxing Authority to the Lender pursuant to a final decision of such Taxing Authority, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such tax refund and promptly transfer the entire amount of the tax refund to a bank account of the Borrower specified for that purpose by the Borrower.

8.6 Representations of the Lender

The Lender represents that (a) it is a bank which at the date hereof is a resident of Luxembourg, is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg; (b) it will account for the Loan on the date of closing on its balance sheet as an asset under "loans and advances to customers" and any arrangements with the agreed funding source as a liability under "liabilities evidenced by paper"; and (c) at the date hereof, it does not have a permanent establishment in Russia.

The Lender shall make reasonable and timely efforts to assist the Borrower to obtain relief from withholding of Russian income tax pursuant to the double taxation treaty between Russia and the jurisdiction in which the Lender is incorporated, including its obligations under Clause 8.8 (*Delivery of Forms*). The Lender makes no representation as to the application or interpretation of any double taxation treaty between Russia and the jurisdiction in which the Lender is incorporated.

8.7 Exceptions

The Lender agrees promptly, upon becoming aware of such, to notify the Borrower if it ceases to be resident in Luxembourg or a Qualifying Jurisdiction or if any of the representations set forth in Clause 8.6 (*Representations of the Lender*) are no longer true and correct. If the Lender ceases to be resident in

Luxembourg or a Qualifying Jurisdiction, then, except in circumstances where the Lender has ceased to be resident in Luxembourg or a Qualifying Jurisdiction by reason of any Change of Law (including a change in a double taxation treaty or in such law or treaty's application or interpretation), in each case taking effect after the date of this Agreement, the Borrower shall not be liable to pay to the Lender under Clause 8.1 (*Additional Amounts*) or Clause 8.3 (*Tax Indemnity*) any sum in excess of the sum it would have been obliged to pay if the Lender had not ceased to be resident in Luxembourg or a Qualifying Jurisdiction.

8.8 Delivery of Forms

The Lender shall within 30 calendar days of the request of the Borrower, to the extent it is able to do so under applicable laws including Russian laws, deliver to the Borrower a certificate issued by the competent Taxing Authority in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) confirming that the Lender is a tax resident in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and such other information or forms as the Borrower may need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Russian Tax after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian Tax has not been obtained. The Lender shall, within 30 calendar days of the request of the Borrower, to the extent it is able to do so under applicable laws including Russian laws, from time to time deliver to the Borrower any additional duly completed application forms as need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Russian Tax or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian Tax has not been obtained. The certificate and, if required, other forms referred to in this Clause 8.8 shall be duly signed by the Lender, if applicable, and stamped or otherwise approved by the competent Taxing Authority in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and apostilled or otherwise legalised. If a relief from deduction or withholding of Russian Tax under this Clause 8.8 has not been obtained and further to an application of the Borrower to the relevant Russian Taxing Authorities the latter requests the Lender's rouble bank account details, the Lender shall at the request of the Borrower (x) use reasonable efforts to procure that such rouble bank account of the Lender is duly opened and maintained, and (y) thereafter furnish the Borrower with the details of such rouble bank account. The Borrower shall pay for all costs associated, if any, with opening and maintaining such rouble bank account.

8.9 Tax Treatment

The Borrower and the Lender hereby agree to treat the Loan as a debt obligation of the Borrower payable to the Lender, as the beneficial owner of such debt obligation, for Russian, Luxembourg and U.S. tax purposes.

9. TAX RECEIPTS

9.1 Notification of Requirement to Deduct Tax

If, at any time, the Borrower is required by law to make any deduction or withholding from any sum payable by it hereunder, or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated, the Borrower shall promptly notify the Lender.

9.2 Evidence of Payment of Tax

The Borrower will make all reasonable endeavours to obtain certified copies, and translations into English, of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Taxing Authority imposing such Taxes. The Borrower will furnish to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), within 60 calendar days after the date the payment of any Taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment by the Borrower or, if such receipts are not obtainable, other evidence of such payments by the Borrower.

10. CHANGES IN CIRCUMSTANCES

10.1 Increased Costs

If, by reason of (i) any Change of Law, other than a Change of Law which relates only to the basis or rate of Tax on the net income of the Lender or the amounts required pursuant to the Fee Letter, and/or (ii) compliance with any Capital Adequacy Requirement, reserve or deposit requirement or any other request from or requirement of any central bank or other fiscal, monetary or other authority which has effect in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes):

- (a) the Lender incurs an additional cost as a result of the Lender's entering into or performing its obligations, including its obligation to make the Loan, under this Agreement (excluding Taxes payable by the Lender on its net income); or
- (b) the Lender becomes liable to make any additional payment on account of Tax or otherwise, not being a tax imposed on its net income or the amounts due pursuant to the Fee Letter, on or calculated by reference to the amount of the Loan and/or to any sum received or receivable by it hereunder except where compensated under Clause 8.1 (*Additional Amounts*) or under Clause 8.3 (*Tax Indemnity*),

then the Borrower shall, from time to time within 30 calendar days of written demand of the Lender, pay to the Lender amounts sufficient to hold harmless and indemnify it from and against, as the case may be, such properly documented (1) cost or (2) liability; provided that the Lender will not be entitled to indemnification where such increased cost or liability arises as a result of the gross negligence, fraud or wilful default of the Lender; and provided that the amount of such increased cost shall be deemed not to exceed an amount equal to the proportion of any cost or liability which is directly attributable to this Agreement.

10.2 Increased Costs Claims

If the Lender intends to make a claim pursuant to Clause 10.1 (*Increased Costs*), it shall notify the Borrower thereof and provide a written description in reasonable detail of the relevant Change of Law or Capital Adequacy Requirement, as the case may be, including a description of the relevant affected jurisdiction or country and the date on which the change in circumstances took effect; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other person's affairs. The written description shall demonstrate the connection between the change in circumstance and the increased costs and shall be accompanied by relevant supporting documentation evidencing the matters described therein.

10.3 Illegality

If, at any time after the date of this Agreement, it is unlawful for the Lender to make, fund or allow to remain outstanding the Loan made or to be made by it hereunder or to maintain its agreed funding source of the Loan, then the Lender shall, after becoming aware of the same, deliver to the Borrower a written notice, setting out in reasonable detail the nature and extent of the relevant circumstances, to that effect and:

- (a) if the Loan has not then been made, the Lender shall not thereafter be obliged to make the Loan; and
- (b) if the Loan is then outstanding and the Lender so requests, the Borrower shall, on the latest date permitted by the relevant law or, if such notice is received after the latest date permitted by the relevant law, on the date which is three business days after such request is received by the Borrower, or such earlier day as the Borrower elects (as notified to the Lender upon not less than 30 calendar days' written notice prior to the date of repayment), repay the Loan together with accrued and unpaid interest thereon and all other amounts owing to the Lender hereunder.

10.4 Mitigation

If circumstances arise which would result in:

- (a) any payment falling due to be made by or to the Lender or for its account pursuant to Clause 10.3 (*Illegality*);

- (b) any payment falling due to be made by the Borrower pursuant to Clause 8.1 (*Additional Amounts*); or
- (c) a claim for indemnification pursuant to Clause 8.3 (*Tax Indemnity*) or Clause 10.1 (*Increased Costs*),

then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above mentioned provisions, the Lender shall, upon becoming aware of the same, notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take reasonable steps to remove such circumstances or mitigate the effects of such circumstances including, without limitation, by the change of its lending office or transfer of its rights or obligations under this Agreement to another bank; provided that the Lender shall be under no obligation to take any such action if, in its opinion, to do so might have any adverse effect upon its business, operations or financial condition or might be in breach of any arrangements which it may have made with the agreed funding source.

11. REPRESENTATIONS AND WARRANTIES OF THE BORROWER

The Borrower makes the following representations and warranties and acknowledges that the Lender has entered into this Agreement in reliance on those representations and warranties.

11.1 Due Organisation

Except as described in Schedule II to the Side Letter, each of the Borrower and its Subsidiaries has been duly incorporated and is validly existing as a legal entity in good standing (where such concept or an analogous concept exists) under the laws of its jurisdiction of incorporation and has full power and authority (corporate and other) to own or lease its properties and conduct its business as described in Schedule II to the Side Letter, except where the failure to do so would not have a Material Adverse Effect; and the Borrower and each of its Subsidiaries is duly qualified to do business as a legal entity in good standing (where such concept or an analogous concept exists) in all jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except where the failure to do so would not have a Material Adverse Effect.

11.2 Authorisations

The Borrower has full corporate power and authority to enter into this Agreement, and this Agreement has been duly authorised, executed and delivered by the Borrower, and is a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, except that the enforcement thereof may be limited by (i) bankruptcy, insolvency, fraudulent transfer, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally and (ii) general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

11.3 No Conflict

Neither the Borrower nor any of its Subsidiaries is in violation of its charter or by-laws or other constitutive documents; and no default exists, and no event has occurred which, with notice or lapse of time or both, would constitute a default in the due performance and observance of any term, covenant or condition of any agreement or instrument (for the avoidance of doubt including this Agreement) to which the Borrower or any of its Subsidiaries is a party or by which the Borrower or any of its Subsidiaries is bound or to which any of their respective properties is subject, except, in each case, where such violation, default or event would not, individually or in the aggregate, have a Material Adverse Effect.

The execution, delivery and performance of this Agreement by the Borrower, the compliance by the Borrower with all the provisions hereof and the consummation of the transactions contemplated hereby (a) will not require any consent, approval, authorisation or other order of any court, regulatory body, administrative agency or other governmental body (except such as may be required under the securities or Blue Sky laws of the various states of the United States or any securities laws of any jurisdiction other than Russia, Luxembourg, the United Kingdom and the Federal law of the United States) except for such consents, approvals, authorisations or other orders as have been obtained and which are in full force and effect and except for such consents as may be obtained within 30 days of the requirement for such consent arising, (b) will not conflict with or constitute a breach of any of the terms or provisions of, or constitute a

default under, the charter or other constitutive documents of the Borrower, (c) will not conflict with or constitute a breach of any agreement, indenture or other instrument to which the Borrower or any of its Subsidiaries is a party or by which the Borrower, any of its Subsidiaries or their respective property or assets is bound, and (d) will not violate or conflict with any laws, administrative regulations or rulings or court decrees applicable to the Borrower, any of its Subsidiaries or their respective property, except, in the case of clause (c), for any conflict, breach or violation which would not have a Material Adverse Effect.

11.4 Financial Statements

The audited consolidated financial statements of the Borrower and the related notes thereto, as contained in Schedule I and Schedule II to the Side Letter, were prepared in accordance with U.S. GAAP consistently applied throughout the periods involved, except as set forth in Schedule II to the Side Letter, and present fairly, in all material respects, the consolidated financial position of the Borrower as at the dates at which they were prepared and the results of the operations and the cash flows of the Borrower in respect of the periods for which they were prepared. The other financial and statistical information and data, including, but not limited to, the 1998 summary consolidated and combined historical financial data of the Borrower and the 2000 and 2001 financial data, set forth in Schedule I and Schedule II to the Side Letter is, in all material respects, accurately presented and prepared on a basis consistent with such financial statements, where applicable, and the books and records of the Borrower and its Subsidiaries and, in the case of the 1998 summary consolidated and combined historical financial data of the Borrower, has been correctly extracted from the Borrower's 1998 unaudited financial statements and, in the case of the 2000 and 2001 financial data, has been correctly extracted from the consolidated financial statements of the Borrower audited by Arthur Andersen. Since the 31 December 2002 consolidated financial statements contained in Schedule I and Schedule II to the Side Letter and, except as disclosed in Schedule II to the Side Letter, (a) there has been no material adverse change in the condition (financial or otherwise) or affecting the business, prospects, financial position, or results of operations of the Borrower or the Borrower and its Subsidiaries taken as a whole, whether or not arising from transactions in the ordinary course of business; and (b) neither the Borrower nor any of its Subsidiaries has entered into any transaction or agreement material to the Borrower or to the Borrower and its Subsidiaries taken as a whole, other than in the ordinary course of business.

The audited financial statements of each Guarantor and the related notes thereto, as contained in Schedule I and Schedule II to the Side Letter, were prepared in accordance with Russian GAAP consistently applied throughout the periods involved, except as set forth in Schedule II to the Side Letter, and present fairly, in all material respects, the financial position of each Guarantor as at the dates at which they were prepared and the results of the operations and the cash flows of each Guarantor in respect of the periods for which they were prepared. The other financial and statistical information and data set forth in Schedule I and Schedule II to the Side Letter is, in all material respects, accurately presented and prepared on a basis consistent with such financial statements and the books and records of each Guarantor and its Subsidiaries. Since the 31 December 2002 financial statements contained in Schedule I and Schedule II to the Side Letter and, except as disclosed in Schedule II to the Side Letter, (a) there has been no material adverse change in the condition (financial or otherwise) or affecting the business, prospects, financial position, or results of operations of any Guarantor or any Guarantor and its Subsidiaries taken as a whole, whether or not arising from transactions in the ordinary course of business; and (b) none of the Guarantors nor any of their Subsidiaries have entered into any transaction or agreement material to such Guarantor or to such Guarantor and its Subsidiaries taken as a whole, other than in the ordinary course of business.

The selected Guarantor financial information, as contained in Schedule I and Schedule II to the Side Letter, was prepared on the basis stated therein, consistently applied and without any material adjustments not disclosed therein, and present fairly, in all material respects, those aspects of the financial position of each Guarantor that are stated therein.

11.5 No Other Indebtedness

The Borrower has no Indebtedness, other than Indebtedness (a) as set forth in the December 31, 2002 audited consolidated balance sheet of the Borrower; (b) as disclosed in Schedule II to the Side Letter or (c) that in the aggregate would not have a Material Adverse Effect

11.6 Payment in U.S. Dollars

All payment obligations of the Borrower under this Agreement are required by the terms hereof to be paid in U.S. dollars, and the Borrower does not require any approvals, consents, licenses and permissions to make and may make such payments in U.S. dollars.

11.7 Taxes

Except as disclosed in Schedule II to the Side Letter, each of the Borrower and the Significant Subsidiaries has duly filed with the appropriate Taxing Authorities, or has received an extension for filing with respect to, all tax returns, reports and other information required to be filed by it, and each such tax return, report, or other information was, when filed, accurate and complete in all material respects; and, except as disclosed in Schedule II to the Side Letter, each of the Borrower and the Significant Subsidiaries has duly paid, or has made adequate reserves for, all Taxes required to be paid by it and any other assessment, fine or penalty levied against it, and to the best of the Borrower's knowledge, no Tax deficiency is currently asserted against the Borrower or any of the Significant Subsidiaries, except, in each case, where any failure to do so would not have a Material Adverse Effect

11.8 Litigation and Contracts

Except as set forth in the Schedule II to the Side Letter (which disclosure shall be disregarded for the purposes of Clause 11.21 (*Repetition*)): (A) there are no pending legal or governmental proceedings against the Borrower or any of its Subsidiaries or any of their respective properties and (B) there are no pending legal or governmental proceedings naming, and, to the best knowledge of the Borrower, there are no threatened legal or governmental proceedings against or naming, the Borrower or any of its Subsidiaries or any of their respective properties that, in each case, if determined adversely to the Borrower or any such Subsidiary, would individually or in the aggregate have a Material Adverse Effect or would have a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement and, to the best knowledge of the Borrower, no such proceedings are contemplated.

11.9 Labour

There are no labour disputes involving the employees of the Borrower or any of its Subsidiaries that exist, or to the best knowledge of the Borrower, that are threatened, except where such would not, individually or in the aggregate, have a Material Adverse Effect.

11.10 Title, Licenses and Consents

Except as set forth in Schedule II to the Side Letter, each of the Borrower and its Subsidiaries possesses all certificates, authorisations, licences and permits issued by appropriate governmental agencies or bodies necessary to conduct the business now conducted by it, except, in each case, where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect and neither the Borrower nor any of its Subsidiaries has received any notice of proceedings relating to the revocation or modification for any such certificate, authorisation or permit that, if determined adversely to the Borrower or any of its Subsidiaries, could have a Material Adverse Effect.

Except as set forth in Schedule II to the Side Letter, each of the Borrower and its Subsidiaries (A) has good and marketable title to all items of real property owned by it and good and marketable title to all other property and assets owned by it, in each case free and clear of any security interests, liens, encumbrances, equities, claims and other defects that would affect the value thereof or interfere with the use made or proposed to be made thereof by it, and (B) holds any real property and buildings leased by it under valid, subsisting and enforceable leases with no exceptions that would interfere with the use made or proposed to be made thereof by it, except, in the cases of each of (A) and (B), where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect.

Except as set forth in Schedule II to the Side Letter, the Borrower and each of its Subsidiaries owns or possesses all patents, patent applications, trademarks, service marks, trade names, licenses, copyrights and proprietary or other confidential information currently employed by it in connection with its business (collectively, "**intellectual property rights**"), except, in each case, where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect; and neither the Borrower nor any of its Subsidiaries has received any notice of infringement of or conflict with asserted rights of others with

respect to any intellectual property rights that, if determined adversely to the Borrower or any of its Subsidiaries, could individually or in the aggregate have a Material Adverse Effect.

11.11 Adequate Insurance

The Borrower and each of its Significant Subsidiaries has, where relevant, applied for insurance with an insurer or insurers of sufficient standing against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged in the jurisdiction where they operate, respectively; the Borrower and each of its Significant Subsidiaries has not been refused any insurance coverage sought or applied for; and the Borrower and each of its Significant Subsidiaries, where relevant, has no reason to believe that they will not be able to obtain, within 60 days of the date of the making of the Loan, such coverage as may be necessary to continue their business at a cost that would not have a Material Adverse Effect.

11.12 No Withholding or Similar Tax

Under current laws and regulations of Russia and Luxembourg and any respective political subdivisions thereof, and based upon the representations of the Lender set forth in Clause 8.6 (*Representations of the Lender*) hereof, all payments of principal and/or interest, Additional Amounts, Tax Indemnity Amounts or any other amounts payable on or in respect of the Loan may be paid by the Borrower to the Lender in U.S. dollars and will not be subject to Taxes under laws and regulations of Russia, or any political subdivision or Taxing Authority thereof or therein, respectively, and will otherwise be free and clear of any other Tax, duty, withholding or deduction in Luxembourg, Russia, or any political subdivision or Taxing Authority thereof or therein (provided, however, that the Borrower makes no representation as to any income or similar Tax of Luxembourg (or any Qualifying Jurisdiction) which may be assessed thereon) and without the necessity of obtaining any governmental authorisation in Russia or any political subdivision or Taxing Authority thereof or therein.

11.13 Not an Investment Company

Without regard to the number or nature of the holders of their securities neither the Borrower nor any Guarantor is and, after giving effect to the Loan and the application of the proceeds thereof will not be, required to register as an "investment company" as defined in the U.S. Investment Company Act of 1940, as amended.

11.14 Rating

No Rating Agency (a) has imposed (or has informed the Borrower that it is considering imposing) any condition (financial or otherwise) on the Borrower's retaining any rating assigned to the Borrower or any securities of the Borrower or (b) has indicated to the Borrower that it is considering (i) the downgrading, suspension or withdrawal of, or any review for a possible change that does not indicate the direction of the possible change in, any rating so assigned or (ii) any change in the outlook for any rating of the Borrower, as applicable, or any securities of the Borrower.

11.15 No Liquidation or Similar Proceedings

No receiver or liquidator (or similar person) has been appointed in respect of the Borrower or any Subsidiary of the Borrower or in respect of any part of the assets of the Borrower or any Subsidiary of the Borrower; no resolution, order of any court, regulatory body, governmental body or otherwise, or petition or application for an order, has been passed, made or presented for the winding up of the Borrower or any Subsidiary of the Borrower or for the protection of the Borrower or any such Subsidiary from its creditors; and the Borrower has not, and no Subsidiary of the Borrower has, stopped or suspended payments of its debts, become unable to pay its debts or otherwise become insolvent.

11.16 Certificates

Each certificate signed by any director or officer of the Borrower and delivered to the Lender or counsel for the Lender on the date of the making of the Loan shall be deemed to be a representation and warranty by the Borrower to the Lender as to the matters covered thereby.

11.17 *Pari Passu* Obligations

The obligations of the Borrower under this Agreement will rank at least *pari passu* in right of payment with all other unsecured and unsubordinated obligations of the Borrower, except as otherwise provided by mandatory provisions of applicable law.

11.18 No Stamp Taxes

Under the laws of Russia in force at the date hereof, it is not necessary that any stamp, registration or similar Tax be paid on or in relation to this Agreement.

11.19 No Events of Default

No event has occurred or circumstances arisen which would (whether or not with the giving of notice and/or the passage of time) constitute an event described in Clause 15 (*Events of Default*).

11.20 Health, Safety and Environment

Each of the Borrower and its Subsidiaries is in compliance with all statutes, and all rules, regulations, requirements, decisions and orders of, and agreements with, any governmental agency or body and any court, relating to the protection of human health and safety (including occupational health and safety), the use, handling, transportation, disposal or release of hazardous or toxic substances, or the protection or restoration of the environment (collectively, "**hse laws**"), and has received, and is in compliance with all terms and conditions of, all permits, licenses or other approvals required of it under applicable hse laws in order to conduct its business, except, in each case, where the failure to be in compliance with or receive such permits, licenses or other approvals would not, individually or in the aggregate, have a Material Adverse Effect;

Neither the Borrower nor any of its Subsidiaries is subject to any claims, costs or liabilities associated with any hse laws (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with hse laws or to acquire or comply with the terms and conditions of any permit, license or approval under any hse laws, any constraints on operating activities and any potential liabilities to third parties) which could, individually or in the aggregate, have a Material Adverse Effect; and, to the best of the Borrower's knowledge, having made all due inquiries, there are no past or present events, conditions, circumstances, activities, practices, incidents or actions that would be reasonably likely to give rise to such costs, liabilities or claims;

11.21 Repetition

Each of the representations and warranties in Clause 11 (*Representations and Warranties of the Borrower*) shall be deemed to be repeated by the Borrower on the date of the making of the Loan and each of Clause 11.1 (*Due Organisation*) (solely with respect to the Borrower and provided that, upon the occurrence of a merger or sale of assets pursuant to Clause 14.6 (*Mergers and Similar Transactions*), the Borrower is the Surviving Entity), Clause 11.2 (*Authorisations*) Clause 11.3 (*No Conflict*) and Clause 11.8 (*Litigation and Contracts*) (solely with respect to any legal or governmental proceedings pending or, to the best knowledge of the Borrower, threatened in writing delivered to the Borrower, before any court, tribunal, arbitration panel or Agency challenging the lawfulness, validity or enforceability of this Agreement (except for any such proceedings as may have been disclosed in writing by the Borrower to the Lender prior to the relevant date of repetition) shall be deemed to be repeated and updated on each Interest Payment Date. The Borrower shall inform the Lender in writing of any breach or prospective breach of such deemed repeated representations and warranties as soon as it becomes aware of the same.

12. REPRESENTATIONS AND WARRANTIES OF THE LENDER

In addition to the representations and warranties set forth in Clause 8.6 (*Qualifying Lender*), the Lender makes the representations and warranties set out in Clause 12.1 (*Status*) to Clause 12.4 (*No Conflicts*), inclusive, and acknowledges that the Borrower has entered into this Agreement in reliance on those representations and warranties.

12.1 Status

The Lender is duly incorporated under the laws of Luxembourg and is resident in Luxembourg for taxation purposes and has full corporate power and authority to enter into this Agreement and any other agreements relating to the agreed funding source, and to undertake and perform the obligations expressed to be assumed by it herein and therein.

12.2 Authorisation

Each of this Agreement and any other agreements entered into in connection with the agreed funding source has been duly authorised, executed and delivered by the Lender, and is a legal, valid and binding obligation of the Lender, enforceable against the Lender in accordance with its terms, except that the enforcement thereof may be subject to bankruptcy, insolvency, fraudulent conveyance, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally and general equitable principles.

12.3 Consents and Approvals

All authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement and any other agreements relating to the agreed funding source and the performance by the Lender of the obligations expressed to be undertaken in such agreements have been obtained and are in full force and effect.

12.4 No Conflicts

The execution of this Agreement and any other agreements relating to the agreed funding source and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Luxembourg or the constitutive documents of the Lender.

13. FINANCIAL INFORMATION

The Borrower will, at its own expense, so long the Loan remains outstanding, furnish to the Lender, copies of all reports and other communications (financial or other) furnished to stockholders of the Borrower and furnish to the Lender, (i) as promptly as practicable, copies of any reports and financial statements furnished to or filed with any securities exchange (other than any securities exchange in Russia) on which any class of securities of the Borrower is listed (such financial statements to be on a consolidated basis and prepared in accordance with U.S. GAAP consistently applied with the preceding period); and (ii) such additional publicly available information concerning the business and financial condition of the Borrower as the Lender may from time to time reasonably request. In addition, the Borrower shall furnish to the Lender, such information as the London Stock Exchange plc (or any other or further stock exchange or stock exchanges or any other relevant authority or authorities on which the instruments issued to the agreed funding source may, from time to time, be listed or admitted to trading) may require in connection with the listing or admittance to trading on such stock exchange or relevant authority of instruments issued to the agreed funding source.

If so requested by the Lender, the Borrower shall deliver to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), within 14 days of such request, an Officers' Certificate (a) stating that to the best of each of the Officers' knowledge (i) the Borrower has kept, observed, performed and fulfilled each and every covenant, and complied with the covenants and conditions contained in this Agreement and (ii) the Borrower is not in default in the performance or observance of any of the terms, provisions and conditions hereof (or, if a Default or Event of Default shall have occurred, describing all such Defaults or Events of Default of which he may have knowledge) and (b) setting out the calculations of the ratios set out in clause 14.13(a).

14. COVENANTS

14.1 Liens

The Borrower will not, and will not permit any of its Subsidiaries to, create, incur, assume or suffer to exist any Lien (other than Permitted Liens) on any asset now owned or hereafter acquired, or any income or profits therefrom, which secures any Indebtedness, unless the Loan and any other sum owing hereunder are secured by a Lien equally and rateably with the Liens securing such other Indebtedness; provided that if such Indebtedness is subordinated Indebtedness of the Borrower, the Lien securing such Indebtedness shall be subordinate or junior to the Lien securing the Loan, with the same relative priority as such Indebtedness shall have with respect to the Loan.

14.2 Stay, Extension and Usury Laws

The Borrower covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Agreement; and the Borrower (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), but will suffer and permit the execution of every such power as though no such law had been enacted.

14.3 Asset Sales

The Borrower will not, and will not permit any of its Subsidiaries to consummate any Asset Sale, unless the proceeds received by the Borrower or such Subsidiary, as the case may be, are at least equal to the Fair Market Value of the assets sold or disposed of (as determined in good faith by the Board of Directors of the Borrower or the relevant Subsidiary) and an amount equal to such proceeds (less any costs plus reasonable expenses incurred in relation to such Asset Sale) is either (a) applied to repay permanently any Indebtedness (other than subordinated Indebtedness) of the Borrower or any Subsidiary or (b) invested in assets (including Capital Stock) of a nature or type that is used or usable in the business of the Borrower or any Subsidiary, being any food and beverage business that the Borrower or any such Subsidiary may conduct at the relevant time, in each case within 360 days of the date when such proceeds are received.

14.4 Transactions with Affiliates and Related Persons

- (a) Subject to sub-Clause 14.4(b) below, the Borrower shall not, and shall not permit any Subsidiary to, directly or indirectly, enter into, permit to exist, renew or extend any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of property or assets, or the rendering of any service) (each a "**Transaction**") with, or for the benefit of, any Related Person of the Borrower (or any Affiliate of such Person) or with, or for the benefit of, any Affiliate of the Borrower, unless any such Transaction or series of related Transactions is made upon fair and reasonable terms no less favourable to the Borrower or such Subsidiary, as the case may be, than could be obtained, at the time of such Transaction or, if such Transaction is pursuant to a written agreement, at the time of the execution of the agreement providing therefor, in a comparable arms'-length Transaction with, or for the benefit of, a Person that is not a Related Person of the Borrower (or any Affiliate of such Person) or an Affiliate of the Borrower.

No such Transaction shall be consummated unless, in the case of a Transaction or series of related Transactions involving aggregate consideration equal to or in excess of (i) U.S.\$1 million, the Borrower or the relevant Subsidiary, as the case may be, obtains the approval of its Board of Directors and (ii) U.S.\$25 million, the Borrower or the relevant Subsidiary shall in addition have received (and shall have delivered a copy to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements)) a written opinion of an internationally or nationally recognised investment banking firm addressed to, and stating that the Transaction or series of related Transactions is fair from a financial point of view to, the Borrower or such Subsidiary.

- (b) The limitations in sub-Clause 14.4(a) above shall not limit, and shall not apply to any Transaction or series of related Transactions solely between the Borrower and any of its Subsidiaries or solely between Subsidiaries of the Borrower.

14.5 Change of Control

Upon the occurrence of a Change of Control, the Borrower shall prepay the Loan, in whole or in part, pursuant to and subject to the conditions described in Clause 7.3 (*Prepayment in the event of a Change of Control*), under the definition of Change of Control.

14.6 Mergers and Similar Transactions

- (a) Subject to sub-Clause 14.6(b) below the Borrower shall not, and shall procure that no Guarantor shall, merge with or into or enter into a transaction whose effect would be similar to that of a merger (including, but not limited to, by way of an acquisition through a share-for-share exchange or contribution of assets) or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets (each a "**merger**") to, any Person or permit any Person to merge with or into the Borrower or any Guarantor:
- (i) if such merger would result in a Rating Decline;
 - (ii) unless the Borrower or the relevant Guarantor shall be the continuing Person, or the Person (if other than the Borrower or the relevant Guarantor) into which the Borrower or such Guarantor is merged or that acquired or leased such property and assets of the Borrower or the relevant Guarantor (the "**Surviving Entity**") shall be a company organised and validly existing under the laws of the Russian Federation, a member of the European Union (as the European Union is constituted on the date hereof), Switzerland or a State of the United States of America or the District of Columbia, and shall expressly assume, by amendment hereto, executed and delivered by such continuing Person to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), in form and substance satisfactory to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), the due and punctual payment of the principal of and interest on the Loan or the Guarantee, as the case may be, and the due and punctual performance and observance of all the covenants, conditions and other obligations of the Borrower or the relevant Guarantor in respect of the Loan and this Agreement or the Guarantee, as the case may be;
 - (iii) unless, in the case of a sale, conveyance, transfer, lease or other disposal of all or substantially all of the Borrower's or its relevant Subsidiary's property and assets, such property and assets shall have been transferred as an entirety or substantially an entirety in one transaction or a series of related transactions to one Person;
 - (iv) unless immediately before and after giving effect to such transaction or series of transactions on a pro forma basis (and treating any Indebtedness which becomes, or is anticipated to become, an obligation of the Surviving Entity or any Subsidiary thereof as a result of such transaction or series of transactions as having been incurred by the Surviving Entity or such Subsidiary at the time of such transaction or series of transactions), no Default or Event of Default shall have occurred and be continuing;
 - (v) unless the Borrower or the Surviving Entity is able to comply with Clause 14.13 (*Maintenance of Guarantee and Guarantors' assets ratio*);
 - (vi) unless immediately before and after giving effect to such transaction or series of transactions on a pro forma basis (and treating any Indebtedness which becomes, or is anticipated to become, an obligation of the Surviving Entity or any Subsidiary thereof as a result of such transaction or series of transactions as having been incurred by the Surviving Entity or such Subsidiary at the time of such transaction or series of transactions) the Borrower or its Subsidiaries, or any Person becoming the successor obligor of the Loan or the Guarantee, as the case may be, would be able to incur an additional \$1.00 of Indebtedness pursuant to Clause 14.10 (*Financial Covenant*) hereof;
 - (vii) unless the Borrower delivers to the Lender an opinion of counsel or tax adviser in form and substance reasonably acceptable to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), to the effect that neither the Lender nor any agreed funding source will recognise any income, gain or loss for Tax purposes from any such merger or sale of assets of the Borrower or the relevant Guarantor and that the Lender and any agreed funding source would, after such merger, be subject to Taxes in the same amounts and in the same manner and at the same times as would have been the case if such merger had not occurred; and

- (viii) unless the Borrower delivers to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with Clause 14.10 (*Financial Covenant*) hereof) and an opinion of counsel reasonably acceptable to the Lender, each in form and substance satisfactory to the Lender (and, following the execution of any supplemental agreements entered into in connection with the agreed funding source, to the party designated by such agreements) and in each case stating that such, merger or transfer and such supplemental agreement comply with this provision, that all legal conditions precedent provided for herein relating to such transaction have been complied with and that this Agreement and the Loan constitute legal, valid and binding obligations of the continuing Person, enforceable in accordance with their terms, subject, in the case of the opinion of counsel, to customary exceptions, qualifications and limitations.
- (b) The restrictions in sub-Clauses 14.6(a)(i), (iii) and (vi) and the Officers' Certificate referred to in (viii) above shall not apply to any mergers between the Borrower and any of the Guarantors or any of the Subsidiaries or between two or more of the Guarantors or between any of the Guarantors and any of the Subsidiaries. The restrictions in sub-Clauses 14.6(a)(vii) and (viii) above shall not apply to any mergers between the Borrower and any of the Guarantors or any of the Subsidiaries or between two or more of the Guarantors or between any of the Guarantors and any of the Subsidiaries if: (i) both relevant entities are incorporated in Russia, (ii) both relevant entities have no business presence or tax residency outside Russia, and (iii) the Borrower (in the event of a merger involving the Borrower) or a Guarantor (in all other mergers), is the Surviving Entity.

14.7 Maintenance of Authorisations

So long as any amount remains outstanding hereunder:

- (i) the Borrower shall, and it shall procure that each of its Significant Subsidiaries shall take all necessary action to obtain and do or cause to be done all things necessary, in the opinion of the Borrower or the relevant Significant Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business;
- (ii) the Borrower shall, and it shall procure that each of the Guarantors shall, make or cause to be made all registrations, recordings and filings, and shall obtain and maintain all consents, licences, approvals and authorisations, which may at any time be required to be obtained or made in Russia or any other relevant jurisdiction for the purposes of the execution, delivery or performance of this Agreement and the Guarantee and for the validity and enforceability thereof; and
- (iii) if any regulation, decree, consent, approval, licence or other authority necessary to enable the Borrower or any Guarantor to enter into or perform its obligations under this Agreement or the Guarantee, as the case may be, or for the validity or enforceability thereof expires or is withheld, revoked or terminated or otherwise ceases to remain in full force and effect or is modified in a manner which adversely affects any rights or claims of the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, of the party designated by such agreements) the Borrower shall ensure compliance with any such regulation, decree or other law or rule and/or take such action as would allow it and the Guarantors, notwithstanding the coming into force of any such regulation, decree or other law or rule or such revocation of an approval, licence or other authority, to execute, deliver and perform this Agreement and the Guarantee and maintain their validity and enforceability (including any rights or claims of the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, of the party designated by such agreements));

provided that, in any case if the Borrower or as the case may be, the relevant Subsidiary can remedy any failure to comply with (i) and (ii) above and can remedy any event contemplated by (iii) above within 60 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

14.8 Maintenance of Property

So long as any amount remains outstanding hereunder, the Borrower and its Significant Subsidiaries will cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipments and shall cause to be made all necessary repairs, renewals, replacements and improvements thereof, all as, in the judgments of the Borrower or any Significant Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times.

14.9 Payment of Taxes

The Borrower shall, and shall cause each of its Subsidiaries to pay or discharge, before the same shall become overdue all Taxes, assessments and governmental levies, except (i) as contested in good faith and by appropriate proceedings and for which adequate reserves, as determined by the Borrower, in accordance with appropriate accounting provisions have been made or (ii) the amount of which, together with all such other unpaid and undischarged Taxes, assessments and governmental levies does not in aggregate exceed U.S.\$1 million.

14.10 Financial Covenant

The Borrower shall not, and shall not permit any Subsidiary to, incur any Indebtedness, other than:

- (i) the Loan;
- (ii) any Indebtedness in circumstances where: (1) no Event of Default shall have occurred and be continuing at the time or would occur as a consequence of the incurrence of such Indebtedness, and (2) after giving effect to the incurrence of such Indebtedness on a pro forma basis and the receipt and application of the proceeds therefrom, immediately after such incurrence the ratio of the consolidated Indebtedness to Consolidated EBITDA is 4:1 or lower; and
- (iii) in addition, any Indebtedness incurred by the Borrower or any Guarantor, other than any Indebtedness owed to any Affiliate of the Borrower or an Affiliate of any relevant Subsidiary, in aggregate not exceeding U.S. \$100 million.

14.11 Maintenance of ownership of Guarantors

The Borrower shall not permit any Person or Persons, other than the Borrower or another Subsidiary of the Borrower, to directly or indirectly, alone or in the aggregate, own or control more than 24.9 per cent. of the Capital Stock with voting power of any Guarantor.

14.12 No limitation on dividend or other payments affecting Subsidiaries

- (a) Subject to sub-Clause 14.12(b) below, the Borrower shall not, and shall not cause or permit any of its Subsidiaries to, directly or indirectly create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Subsidiary to:
 - (i) pay dividends or make any other distributions on or in respect of its Capital Stock to the Borrower or any Subsidiary of the Borrower or pay any Indebtedness owed to the Borrower or any such Subsidiary;
 - (ii) make loans or advances to, or guarantee any Indebtedness or other obligations of the Borrower or any Subsidiary of the Borrower; or
 - (iii) transfer any of its property or assets to the Borrower or any of the Borrower's Subsidiaries.
- (b) The provisions of sub-Clause 14.12(a) above shall not restrict any encumbrance or restriction:
 - (i) arising solely by operation of law;
 - (ii) existing under an agreement in effect on the date hereof; provided, however, that the terms, conditions and scope of any such encumbrance or restriction included in any such agreement may be amended only if:
 - (1) such amended encumbrance or restriction, when taken together with all the other encumbrances and restrictions in such agreement (as amended), will not be materially more restrictive or disadvantageous (A) to the agreed funding source or the Borrower

than the encumbrance or restriction being amended or (B) to the Borrower than is customary in comparable transactions (in each case, as determined by the Borrower); and

- (2) the amended terms, conditions and scope of any such amended encumbrance or restriction, when taken together with the terms, conditions and scope of all the other encumbrances and restrictions in such agreement (as amended), will not materially adversely affect the Borrower's ability to make principal or interest payments on the Loan (as determined by the Borrower); or
- (iii) contained in the terms of any Indebtedness incurred in compliance with Clause 14.10 (*Financial Covenant*) hereof or in any agreement pursuant to which such Indebtedness was issued, if:
 - (1) the encumbrances and restrictions in any such agreement, when taken as a whole, will not be materially more restrictive or disadvantageous to the Borrower than is customary in comparable transactions (as determined by the Borrower); and
 - (2) the terms, conditions and scope of any such encumbrances and restrictions in any such agreement, when taken as a whole, will not materially adversely affect the Borrower's ability to make principal or interest payments on the Loan (as determined by the Borrower);

14.13 Maintenance of Guarantee and Certain Ratios

- (a) Should the obligations of any Guarantor under the Guarantee cease to be legal, valid, binding and enforceable or should the aggregate value of the assets, revenues and operating income of the Borrower and the Guarantors at any time fall below 40 per cent, 60 per cent and 60 per cent, respectively, of the consolidated assets, consolidated revenues and consolidated operating income of the Group, the Borrower shall procure that additional guarantees guaranteeing the obligations of the Borrower under the Loan Agreement are given by one or more of its Subsidiaries whose asset value, revenues and operating income when aggregated with the value of the assets, revenues and operating income of the then existing Guarantors and the Borrower, are equal to or exceed the above respective ratios.
- (b) The Borrower shall also procure that:
 - (i) an opinion of counsel or tax adviser, in form and substance reasonably acceptable to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), to the effect that neither the Lender nor any agreed funding source will recognise any income, gain or loss for Tax purposes as a result of any such addition to or substitution of the Guarantee, subject to customary exceptions, qualifications and limitations; and
 - (ii) an opinion of counsel reasonably acceptable to the Lender, in form and substance satisfactory to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), stating that all legal conditions precedent in relation to such substitution or addition have been complied with and that the new guarantee constitutes legal, valid and binding obligations of such new Guarantor, enforceable in accordance with its terms, subject to customary exceptions, qualifications and limitations;

provided that, if the Borrower or any Subsidiary can remedy any failure to comply with the above within 60 days, this covenant shall be deemed not to have been breached; and provided further that, immediately after the coming into effect of such additional guarantee or guarantees, no Default or Event of Default shall have occurred and be continuing.

- (c) For purposes of this Clause 14.13, the aggregate value of the assets, revenues and operating income, respectively, of the Borrower and each of the Guarantors is to be calculated on the basis of the accounting records of the Borrower and each of the Guarantors which support the conversion of Russian statutory accounts into U.S. GAAP financial schedules that are used in preparation of the consolidated U.S. GAAP financial statements of the Group. The following adjustments will be made to the sum of the assets, revenues and operating income of the

Borrower and Guarantors respectively in order to calculate the aggregate value of their assets, revenues and operating income:

- (i) elimination of transactions and balances between the Borrower and the Guarantors, and between the Guarantors and other Subsidiaries of the Borrower;
 - (ii) elimination of investments between the Guarantors, between the Guarantors and the Borrower, and between the Guarantors, the Borrower and other Subsidiaries of the Borrower;
 - (iii) elimination of expenses incurred by the Borrower and the Guarantors for the benefit of other Subsidiaries of the Borrower;
 - (iv) incorporation of effects of purchase accounting to the extent that such adjustments are not reflected in the U.S. GAAP financial schedules of the Borrower and the Guarantors and have been recorded at the Group level only; and
 - (v) any other adjustments that would be required in order to present aggregate assets, revenues and operating income of the Borrower and the Guarantors on a basis consistent with the consolidated financial statements of the Borrower.
- (d) Provided that the Borrower complies with the requirements of this Clause 14.13, the Guarantee in relation to any Guarantor can be terminated at any time by the Borrower and the relevant Guarantor without the consent of the Lender (and, following the execution of any agreements entered into in connection with the agreed funding source, without the consent of the agreed funding source provided that a notice of such intended termination is delivered to the Lender (and the party designated by such agreements) no later than 20 days before such intended termination).
- (e) The Borrower's obligation to comply with the provisions of this Clause 14.13 will be suspended during any period in which the ratings of the Loan or of any instruments issued to the agreed funding source by both Rating Agencies meet both of the following standards for investment-grade securities: (i) Baa3 or better from Moody's and (ii) BBB- or better from S&P.

14.14 Insurance

The Borrower and each of its Significant Subsidiaries will obtain and maintain insurance with an insurer or insurers of sufficient standing against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged in the jurisdiction where they operate, respectively, at a cost that would not have a Material Adverse Effect; provided that if the Borrower or any such Subsidiary can remedy any failure to comply with the above within 30 days, this covenant shall be deemed not to have been breached.

15. EVENTS OF DEFAULT

15.1 Circumstances which constitute Events of Default

Each of the following constitutes an "Event of Default" with respect to the Loan:

- (a) default by the Borrower or any Guarantor in the payment of principal of (or premium, if any, on) the Loan, in the currency and in the manner provided herein or in the Guarantee, as the case may be, when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (b) default by the Borrower or any Guarantor in the payment of interest on the Loan, in the currency and in the manner provided herein or in the Guarantee, as the case may be, when the same becomes due and payable if such default continues for a period of 15 Business Days;
- (c) failure by the Borrower or any Guarantor to prepay the Loan in accordance with Clause 14.5 (*Change of Control*) hereof;
- (d) default by the Borrower or any Guarantor in the performance or breach of any other provisions of this Agreement or the Guarantee, as the case may be, (except in relation to the representations and warranties of the Borrower and/or any Guarantor and Clause 14.7 (Maintenance of Authorisations)) and (except where in any such case that failure is not capable of remedy) that

failure continues for a period of 30 days following the submission by the Lender of a notice in writing requiring the breach to be remedied;

- (e) a failure to comply with Clause 14.7 hereof (*Maintenance of Authorisations*);
- (f) any representation and warranty of the Borrower in this Agreement or any Guarantor in the Guarantee or in any other documents, certificate or notice delivered to the Lender in connection with this Agreement, the Guarantee or any instruments issued to the agreed funding source proves to be inaccurate, incomplete or misleading in any material respect at the time it was made or repeated or deemed to have been made or repeated if not remedied within 30 days;
- (g) any Indebtedness of either the Borrower or any of its Subsidiaries is not paid when due (taking into account any originally applicable grace period), or any Indebtedness of either the Borrower or any of its Subsidiaries is either declared to be or otherwise becomes due and payable prior to its Stated Maturity (otherwise than at the option of the Borrower or any of its Subsidiaries, as the case may be, or (provided that no Event of Default has occurred) any person entitled to such Indebtedness; provided, however, that the total amount of such Indebtedness which is not paid when due or becomes due and payable prior to its Stated Maturity is equal to or greater than U.S.\$10 million (or its equivalent in another currency) disregarding any guarantee of the Borrower or its Subsidiaries given in respect of such Indebtedness owed by the Borrower or its Subsidiaries, as the case may be;
- (h) any final judgment or order (not covered by insurance) for the payment of money in excess of U.S.\$5 million (or, to the extent non-U.S. dollar denominated, the U.S. dollar equivalent of such amount) in the aggregate for all such final judgments or orders against all such Persons (treating any deductibles, self-insurance or retention as not so covered) shall be rendered against the Borrower or any Significant Subsidiary and shall not be paid or discharged, and there shall be any period of 60 consecutive calendar days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed U.S.\$5 million (or, to the extent non-U.S. dollar denominated, the U.S. dollar equivalent of such amount) during which a stay of enforcement of such final judgment or order, by reason of a pending appeal or otherwise, shall not be in effect;
- (i) the validity of this Agreement or the Guarantee is contested by the Borrower or any Guarantor or the Borrower or any Guarantor shall deny any of its obligations under this Agreement or any Guarantor shall deny any of its obligations under the Guarantee; or it is, or will become, unlawful for the Borrower or any Guarantor to perform or comply with any of its obligations under or in respect of this Agreement or the Guarantee, as the case may be, or any of such obligations shall become unenforceable or cease to be legal, valid and binding, provided that no Event of Default shall have occurred under this sub-Clause (i) in respect of any Guarantor's obligations under the Guarantee if the Borrower can still comply with Clause 14.13 (*Maintenance of Guarantee and Guarantors' assets ratio*);
- (j) a decree, judgment, or order by any Agency or a court of competent jurisdiction shall have been entered adjudging the Borrower or any of its Significant Subsidiaries as bankrupt or insolvent, or approving as properly filed a petition seeking reorganisation of the Borrower or any of its Significant Subsidiaries under any bankruptcy or similar law, and such decree or order shall have continued undischarged and unstayed for a period of 60 days; or a decree or order of a court of competent jurisdiction over the appointment of a receiver, liquidator, trustee, or assignee in bankruptcy or insolvency of the Borrower or any of its Significant Subsidiaries, or any substantial part of the assets or property of any such Person, or for the winding up or liquidation of the affairs of any such Person, shall have been entered, and such decree, judgment or order shall have remained in force undischarged and unstayed for a period of 60 days; or
- (k) the Borrower or any of its Significant Subsidiaries shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganisation under any bankruptcy or similar law or similar statute, or shall consent to the filing of any such petition, or shall consent to the appointment of a custodian, receiver, liquidator, trustee or assignee in bankruptcy or insolvency of it or any substantial part of its assets or property, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or shall, within the meaning of any Bankruptcy Law, become insolvent, fail generally to pay

its debts as they become due, or takes any corporate action in furtherance of or to facilitate, conditionally or otherwise, any of the foregoing.

15.2 Rights of Lender upon occurrence of an Event of Default

- (a) If an Event of Default occurs under this Agreement and is continuing, the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, the party designated by such agreements) may, by written notice (an "**Acceleration Notice**") to the Borrower, if the Lender, (and, following the execution of any other agreements entered into in connection with the agreed funding source, the party designated by such agreements) receives written instructions from the agreed funding source,
- (i) declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate, and
 - (ii) declare the principal amount of, premium, if any, and accrued and unpaid interest, Additional Amounts and Tax Indemnity Amounts, if any, on the Loan to be immediately due and payable and the same shall become immediately due and payable,

pursuant to and in accordance with the terms of any agreements entered into in connection with the agreed funding source.

- (b) If an Event of Default specified in Clause 15.1(h), (i) or (j) occurs with respect to the Borrower or any of its relevant Significant Subsidiaries, the obligations of the Lender hereunder shall immediately terminate, and the principal amount of, premium, if any, and accrued and unpaid interest, Additional Amounts and Tax Indemnity Amounts, if any, on the Loan then outstanding shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, of the party designated by such agreements), all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

15.3 Other Remedies

If an Event of Default occurs and is continuing, the Lender by notice to the Borrower and/or the Guarantors, as the case may be, (and, following the execution of any other agreements entered into in connection with the agreed funding source, the party designated by such agreements) may pursue any available remedy to collect the payment of principal or interest on the Loan or to enforce the performance of any provision of this Agreement or the Guarantee. A delay or omission by the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, by the party designated by such agreements) in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. All remedies are cumulative to the extent permitted by law.

15.4 Notification of Default or Event of Default

The Borrower shall and shall procure that each of the Guarantors shall promptly on becoming aware thereof inform the Lender of the occurrence of any Default or Event of Default and, upon receipt of a written request to that effect from the Lender, confirm to the Lender that, save as previously notified to the Lender or as notified in such confirmation, no Default or Event of Default has occurred.

16. DEFAULT INTEREST AND INDEMNITY

16.1 Default Interest Periods

If any sum due and payable by the Borrower hereunder is not paid on the due date therefor in accordance with the provisions of Clause 19 (*Payments*) or if any sum due and payable by the Borrower under any judgement of any court in connection herewith is not paid on the date of such judgment, the period beginning on such due date or, as the case may be, the date of such judgment and ending on the date upon which the obligation of the Borrower to pay such sum (the balance thereof for the time being unpaid being herein referred to as an "**unpaid sum**") is discharged shall be divided into successive periods, each of which, other than the first, shall start on the last day of the preceding such period and the duration of each of which shall, except as otherwise provided in this Clause 16 (*Default Interest and Indemnity*), be selected by the Lender, but shall in any event not be longer than one month.

16.2 Default Interest

During each such period relating thereto as is mentioned in Clause 16.1 (*Default Interest Periods*) an unpaid sum shall bear interest at a rate per annum equal to the Interest Rate.

16.3 Payment of Default Interest

Any interest which shall have accrued under Clause 16.2 (*Default Interest*) in respect of an unpaid sum shall be due and payable and shall be paid by the Borrower at the end of the period by reference to which it is calculated or on such other dates as the Lender may specify by written notice to the Borrower.

16.4 Borrower's Indemnity

The Borrower undertakes to indemnify the Lender against any reasonably incurred and properly documented cost, claim, loss, expense (including legal fees) or liability, together with any VAT thereon, which it may sustain or incur as a consequence of the occurrence of any Event of Default or any default by the Borrower in the performance of any of the obligations expressed to be assumed by it in this Agreement.

The Borrower also undertakes to indemnify the Lender against any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees) arising out of, or in connection with any instruments issued to the agreed funding source, or based on any dispute or issue arising out of, or in connection with, any instruments issued to the agreed funding source.

16.5 Unpaid Sums as Advances

Any unpaid sum shall, for the purposes of this Clause 16 (*Default Interest and Indemnity*) and Clause 10.1 (*Increased Costs*), be treated as an advance and accordingly in this Clause 16 (*Default Interest and Indemnity*) and Clause 10.1 (*Increased Costs*) the term "Loan" includes any unpaid sum and the term "Interest Period," in relation to an unpaid sum, includes each such period relating thereto as is mentioned in Clause 16.1 (*Default Interest Periods*).

17. AMENDMENTS TO AGREED FUNDING SOURCE AGREEMENTS

Any amendment to, or waivers of any provision of, any agreements entered into in connection with the agreed funding source shall be prohibited without the express written consent of the Borrower, which consent shall not be unreasonably withheld (other than amendments or waivers that are made pursuant to any legal, regulatory or accounting requirement, with respect to which the Lender shall consult with the Borrower to the extent reasonably practicable).

18. CURRENCY OF ACCOUNT AND PAYMENT

18.1 Currency of Account

The U.S. dollar is the currency of account and payment for each and every sum at any time due from the Borrower hereunder.

18.2 Currency Indemnity

If any sum due from the Borrower under this Agreement or any order or judgment given or made in relation hereto has to be converted from the currency (the "**first currency**") in which the same is payable hereunder or under such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Borrower, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation hereto, the Borrower shall indemnify and hold harmless the Lender from and against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Lender may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

19. PAYMENTS

19.1 Payments to the Lender

On each date on which this Agreement requires an amount denominated in U.S. dollars to be paid by the Borrower, the Borrower shall make the same available to the Lender by payment in U.S. dollars and in same day funds on such date, or in such other funds as may for the time being be customary in London for the settlement in London of international banking transactions in U.S. dollars, to the Account. The Borrower shall procure that the bank effecting payment on its behalf confirms to the Lender or to such person as the Lender may direct by tested telex or authenticated SWIFT message three Business Days prior to the date that such payment is required to be made by this Agreement the payment instructions relating to such payment.

19.2 Alternative Payment Arrangements

If, at any time, it shall become impracticable, by reason of any action of any governmental authority or any Change of Law, exchange control regulations or any similar event, for the Borrower to make any payments hereunder in the manner specified in Clause 19.1 (*Payments to the Lender*), then the Borrower may agree with the Lender alternative arrangements for such payments to be made; provided that, in the absence of any such agreement, the Borrower shall be obliged to make all payments due to the Lender in the manner specified herein.

19.3 No Set-off

All payments required to be made by the Borrower hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

20. COSTS AND EXPENSES

20.1 Transaction Expenses and Fees

The Borrower agrees to pay the Lender a fee, pursuant to the Fee Letter.

20.2 Preservation and Enforcement of Rights

The Borrower shall, from time to time on demand of the Lender and following receipt from the Lender of a description in writing in reasonable detail of the relevant costs and expenses, together with the relevant supporting documents evidencing the matters described therein, reimburse the Lender for all costs and expenses, including legal fees, together with any VAT thereon properly incurred in or in connection with the preservation and/or enforcement of any of its rights under this Agreement except where the relevant claim is successfully defended by the Borrower.

20.3 Stamp Taxes

The Borrower shall pay all stamp, registration and other similar Taxes to which this Agreement or any judgement given against the Borrower in connection herewith is or at any time may be subject and shall, from time to time on demand of the Lender, indemnify the Lender against any properly documented liabilities, costs, expenses and claims resulting from any failure to pay or any delay in paying any such Tax.

20.4 Lender's Costs

The Borrower shall, from time to time on demand of the Lender, and without prejudice to the provisions of Clause 20.2 (*Preservation and Enforcement of Rights*), compensate the Lender at such daily and/or hourly rates as the Lender shall from time to time reasonably determine for the time and expenditure, all costs and expenses (including telephone, fax, copying, travel and personnel costs) reasonably incurred and properly documented by the Lender in connection with its taking such action as it may deem appropriate or in complying with any request by the Borrower in connection with:

- (a) the granting or proposed granting of any waiver or consent requested hereunder by the Borrower;
- (b) any actual breach by the Borrower of its obligations hereunder; or
- (c) any amendment or proposed amendment hereto requested by the Borrower.

21. ASSIGNMENTS AND TRANSFERS

21.1 Binding Agreement

This Agreement shall be binding upon and inure to the benefit of each party hereto and its or any subsequent successors and assigns.

21.2 No Assignments and Transfers by the Borrower

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder, except as permitted under Clause 14.6 (*Mergers and Similar Transactions*).

21.3 Assignments by the Lender

- (a) Prior to an Event of Default, the Lender may (i) on or at any time after the date hereof assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder (save for (x) its rights to principal, interest and other amounts paid and payable under this Agreement and (y) its right to receive amounts paid and payable under any claim, award or judgment relating to this Agreement in favour of the agreed funding source (other than any rights arising under the indemnity in relation to instruments issued to the agreed funding source described in the second paragraph of Clause 16.4 (*Borrower's Indemnity*)) (the "**afs indemnity**") to or on behalf of the agreed funding source or, in the case of an assignment of the afs indemnity, to any relevant party who suffers or incurs, as the case may be, any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees) arising out of, or in connection with, or based on any dispute or issue arising in connection with the agreed funding source; and (ii) subject to the prior written consent of the Borrower (such consent not to be unreasonably withheld or delayed) and except as may be otherwise specifically provided under the agreements entered into in connection with the agreed funding source, assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder to any company which, as a result of any amalgamation, merger or reconstruction or which, as a result of any agreement with the Lender, or any previous substitute, owns beneficially the whole or substantially the whole of the undertaking, property and assets owned by the Lender prior to such amalgamation, merger, reconstruction or agreement coming into force and where, in the case of any company which will own the whole or substantially the whole of the undertaking, property or assets of the Lender, the substitution of that company as principal debtor in relation to the agreed funding source would not be materially prejudicial to the interests of the agreed funding source or the Borrower. Any reference in this agreement to any such assignee or transferee pursuant to sub-Clause (ii) of this Clause 21.3(a) shall be construed accordingly and, in particular, references to the rights, benefits and obligations hereunder of the Lender, following such assignment or transfer, shall be references to such rights, benefits or obligations by the assignee or transferee.
- (b) On or following an Event of Default, the Lender may, by notice to the Borrower, assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder to the agreed funding source, or any assignee or transferee appointed in connection with the agreed funding source. Any reference in this agreement to any such assignee or transferee shall be construed accordingly and, in particular, references to the rights, benefits and obligations hereunder of the Lender, following such assignment or transfer, shall be references to such rights, benefits or obligations by the assignee or transferee appointed in connection with the agreed funding source.

22. CALCULATIONS AND EVIDENCE OF DEBT

22.1 Basis of Accrual

Default interest shall accrue from day to day and shall be calculated on the basis of a year of 360 days consisting of 12 30-day months.

22.2 Evidence of Debt

The Lender shall maintain, in accordance with its usual practice, accounts evidencing the amounts from time to time lent by and owing to it hereunder; in any legal action or proceeding arising out of or in connection with this Agreement, in the absence of manifest error and subject to the provision by the

Lender to the Borrower of written information describing in reasonable detail the calculation or computation of such amounts together with the relevant supporting documents evidencing the matters described therein, the entries made in such accounts shall be conclusive evidence of the existence and amounts of the obligations of the Borrower therein recorded.

22.3 Change of Circumstance Certificates

A certificate signed by two authorised signatories of the Lender describing in reasonable detail (a) the amount by which a sum payable to it hereunder is to be increased under Clause 8.1 (*Additional Amounts*) or (b) the amount for the time being required to indemnify it against any such cost, payment or liability as is mentioned in Clause 8.3 (*Tax Indemnity*) or Clause 10.1 (*Increased Costs*) shall, in the absence of manifest error, be *prima facie* evidence of the existence and amounts of the specified obligations of the Borrower.

23. REMEDIES AND WAIVERS, PARTIAL INVALIDITY

23.1 Remedies and Waivers

No failure by the Lender to exercise, nor any delay by the Lender in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

23.2 Partial Invalidity

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

24. NOTICES; LANGUAGE

24.1 Communications in Writing

Each communication to be made hereunder shall be made in writing and, unless otherwise stated, shall be made by fax or letter.

24.2 Delivery

Any communication or document to be made or delivered by one person to another pursuant to this Agreement shall, unless that other person has by 15 calendar days' written notice to the same specified another address, be made or delivered to that other person at the address identified with its signature below and shall be effective or when left at that address (in the case of a letter) or when received by the addressee (in the case of a fax). Provided that any communication or document to be made or delivered by one party to the other party shall be effective only when received by such other party and then only if the same is expressly marked for the attention of the department or officer identified with the such other party's signature below, or such other department or officer as such other party shall from time to time specify for this purpose.

24.3 Language

This Agreement shall be signed in English. Each communication and document made or delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation thereof into English certified by an officer of the person making or delivering the same as being a true and accurate translation thereof.

25. LAW AND JURISDICTION

25.1 English Law

This Agreement is governed by, and shall be construed in accordance with, English law.

25.2 English Courts

Each of the Lender and the Borrower agrees that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which arise out of or in connection with this Agreement ("**Proceedings**") and, for such purposes, irrevocably submit to the jurisdiction of such courts.

25.3 Appropriate Forum

Each of the Lender and the Borrower irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.

25.4 Service of Process

The Lender and the Borrower agree that the process by which any Proceedings in England are begun may be served on them by being delivered to UBS Limited and Law Debenture Corporate Services Limited, respectively, or their registered offices for the time being. If any such Person mentioned in this Clause is not or ceases to be effectively appointed to accept service of process on the Lender's behalf, the Lender shall immediately appoint a further Person in England to accept service of process on its behalf. If such Person mentioned in this Clause is not or ceases to be effectively appointed to accept service of process on the Borrowers' behalf, the Borrower shall immediately appoint a further Person in England to accept service of process on its behalf. Nothing in this Clause shall affect the right of either party hereto to serve process in any other manner permitted by law.

25.5 Non-exclusivity

The submission to the jurisdiction of the English courts in accordance with Clause 25.2 (*English courts*) hereof shall not, and shall not be construed so as to, limit the right of any party hereto to take Proceedings in any other court of competent jurisdiction.

25.6 Consent to Enforcement, etc.

Each of the Lender and the Borrower consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including, without limitation, the making, enforcement or execution against any property whatsoever, irrespective of its use or intended use, of any order or judgement which is made or given in such Proceedings.

25.7 Arbitration

If any dispute or difference of whatever nature howsoever arises from or in connection with this Agreement, or any supplement, modifications or additions thereto (each a "**Dispute**"), the Lender may elect, by notice to the Borrower, to settle such claim by arbitration in accordance with the following provisions. The Borrower hereby agrees that (regardless of the nature of the Dispute) any Dispute may be settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the "**Rules**") as at present in force by a panel of three arbitrators appointed in accordance with the Rules. The seat of any reference to arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The language of any arbitral proceedings shall be English. The appointing authority for the purposes set forth in Articles 7(2) and 7(3) of the Rules shall be the London Court of International Arbitration.

25.8 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

25.9 Counterparts

This Agreement may be signed in two or more counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

AS WITNESS the hands of the duly authorised representatives of the parties hereto the day and year first before written.

SIGNATURE PAGE

Borrower
OPEN JOINT STOCK COMPANY WIMM-BILL-DANN FOODS

By: /s/ V. PREOBRAJENSKY

Title: _____
V. Preobrajensky
Chief Executive Officer

By: /s/ E. LARYUSHKINA

Title: _____
E. Laryushkina
Chief Accountant

Notices:

Open Joint Stock Company
Wimm-Bill-Dann Foods
Yauzsky Boulevard 16/15
109028 Moscow
The Russian Federation
Fax: +7 095 105 5805

Lender
UBS (LUXUMBOURG) S.A.

By: /s/ M. SCHWITTER

Title: _____
M. Schwitter

By: /s/ F. GERSTER

Title: _____
F. Gerster

Notices:

UBS (Luxembourg) S.A.
36-38 Grand' rue
L-1600 Luxembourg
Fax: +352-45 12 12 703
Attention: Michael Schwitter/Flemming Gerster

QuickLinks

Exhibit 4.1

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Exhibit 4.2

DEED OF GUARANTEE

Dated as of 14 May, 2003

ОАО ЛИАНОЗОВО DAIRY PLANT

ОАО ТСАРИТСИНО DAIRY PLANT

ЗАО TRADE COMPANY WIMM-BILL-DANN

as Guarantors

and

UBS (LUXEMBOURG) S.A.

as Lender

CLEARY, GOTTlieb, STEEN & HAMILTON

City Place House,
55 Basinghall Street,
London EC2V 5EH

THIS DEED OF GUARANTEE is entered into on 14 May, 2003

BETWEEN:

- (1) **OAD LIANOZOVO DAIRY PLANT** and **OAD TSARITSINO DAIRY PLANT**, each an open joint stock company organised under the laws of the Russian Federation and **ZAO TRADE COMPANY WIMM-BILL-DANN**, a closed joint stock company organised under the laws of the Russian Federation (each a "**Guarantor**" and collectively, the "**Guarantors**"); and
- (2) **UBS (LUXEMBOURG) S.A.**, a bank established under the laws of Luxembourg and whose registered office is 36-38 Grand' rue, L-1660 Luxembourg, Luxembourg (the "**Lender**")

WHEREAS:

The Lender has agreed, pursuant to the terms of the Loan Agreement, to grant to the Borrower a single disbursement term loan facility in the amount of U.S.\$150,000,000 and each Guarantor has agreed to guarantee all the obligations of the Borrower to the Lender under the Loan Agreement on an irrevocable, unconditional, joint and several basis.

NOW THIS DEED WITNESSETH AS FOLLOWS:

INTERPRETATION

Terms defined in the Loan Agreement dated 14 May, 2003 (the "**Loan Agreement**") between the Lender and Open Joint Stock Company Wimm-Bill-Dann Foods as Borrower (the "**Borrower**") shall have the same meaning when used in this Guarantee except as otherwise stated and except that, for the purposes of this Guarantee:

- (1) the term "**Guarantor**" shall include any of the Borrower's Subsidiaries from time to time guaranteeing the obligations of the Borrower under the Loan Agreement; and
- (2) the term "**Subsidiary**", except as the context otherwise requires, shall be construed as a reference to the Subsidiary of the relevant Guarantor and shall not be deemed to include any Guarantor.

1. GUARANTEE AND INDEMNITY

1.1 Guarantee and Indemnity

Each Guarantor irrevocably and unconditionally jointly and severally:

- (a) guarantees to the Lender the due and punctual performance by the Borrower of all the Borrower's obligations under the Loan Agreement;
- (b) undertakes with the Lender that whenever the Borrower does not pay any amount when due under or in connection with the Loan Agreement, that Guarantor shall immediately on demand pay or cause to be paid in full that amount as if it was the principal obligor; and
- (c) indemnifies the Lender immediately on demand against any cost, loss or liability suffered by the Lender if any obligation guaranteed by that Guarantor is or becomes unenforceable, invalid or illegal including any and all reasonable expenses properly documented, such as legal fees and expenses incurred by the Lender in enforcing any rights under the Loan Agreement or this Guarantee.

1.2 Continuing guarantee

This Guarantee is a continuing guarantee and extends to the total balance of sums payable by the Borrower under the Loan regardless of any intermediate payment or discharge in whole or in part.

1.3 Reinstatement

If any payment by the Borrower is avoided or reduced or any discharge given by the Lender or the agreed funding source (whether in respect of the obligations of the Borrower or any security for those obligations or otherwise) as a result of any insolvency, reorganization or similar event in respect of the Borrower:

- (a) the liability of each Guarantor shall continue as if the payment, discharge, avoidance or reduction had not occurred; and
- (b) the Lender shall be entitled to recover the full amount of such payment from each Guarantor, as if the payment, discharge, avoidance or reduction had not occurred.

1.4 Waiver of defences

As between each Guarantor and the Lender, but without affecting the Borrower's obligations, each Guarantor will be liable as if it were the sole principal debtor and not merely a surety. Accordingly, such Guarantor will not be discharged nor will its liability be affected, by anything which would not discharge it or affect its liability if it were the sole principal debtor, including:

- (a) any time, waiver or consent granted to, or composition with, the Borrower or other person;
- (b) the release of the Borrower or any other person under the terms of any composition or arrangement with any creditor of any member of the Group;
- (c) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights against, or security over assets of, the Borrower or other person or any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;
- (d) any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of the Borrower or any other person;
- (e) any amendment (however fundamental) or replacement of the Loan Agreement or any other document or security;
- (f) any unenforceability, illegality or invalidity of any obligation of any person under the Loan Agreement or any other document (including any other guarantee given in respect of the Loan) or security or the absence of any action to enforce the same;
- (g) any insolvency or similar proceedings; or
- (h) any failure by any party to perform any requisite due diligence or to present any requisite document, claim, demand for payment, protest or notice with respect to the Loan Agreement.

1.5 Immediate recourse

Each Guarantor waives any right it may have of first requiring the Lender (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any person before claiming from that Guarantor under this Guarantee. This waiver applies irrespective of any law or any provision of the Loan Agreement to the contrary.

1.6 Appropriations

Until all amounts which may be or become payable by the Borrower pursuant to the terms of the Loan Agreement have been irrevocably paid in full, the Lender (or any trustee or agent on its behalf) may:

- (a) refrain from applying or enforcing any other moneys, security or rights held or received by the Lender (or any trustee or agent on its behalf) in respect of those amounts, or apply and enforce the same in such manner and order as it sees fit (whether against those amounts or otherwise) and no Guarantor shall be entitled to the benefit of the same; and
- (b) hold in an interest-bearing suspense account any moneys received from any Guarantor or on account of any Guarantor's liability under this Guarantee.

1.7 Deferral of Guarantors' rights

Until all amounts which may be or become payable by the Borrower pursuant to the terms of the Loan Agreement have been irrevocably paid in full no Guarantor will exercise any rights which it may have by reason of the performance by it of its obligations under this Guarantee:

- (a) to be indemnified by the Borrower;
- (b) to claim any contribution from any other Guarantor of the Borrower's obligations under the Loan Agreement; and/or
- (c) to take the benefit (in whole or in part and whether by way of subrogation or otherwise) of any rights of the Lender under the Loan Agreement or of any other guarantee or security taken pursuant to, or in connection with, the Loan Agreement by the Lender.

1.8 Additional security

This Guarantee is in addition to and is not in any way prejudiced by any other guarantee or security now or subsequently held by the Lender, for the avoidance of doubt including any other guarantee (present or future) given in connection with the Loan Agreement.

1.9 Acceleration

Each Guarantor further agrees that, as between it, on the one hand, and the Lender, on the other hand, (i) for the purposes of this Guarantee, the maturity of the obligations guaranteed by this Guarantee may be accelerated as provided in Clauses 7 (*Prepayments*) and 15 (*Events of Default*) of the Loan Agreement, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the obligations guaranteed thereby; provided, however, that if a court of competent jurisdiction determines that the Loan was improperly accelerated pursuant to the terms thereof, then the maturity of such obligations may not be accelerated for the purposes of this Guarantee, and (ii) in the event of any acceleration of such obligations (whether or not due and payable) such obligations shall forthwith become due and payable by each Guarantor for purposes of this Guarantee.

1.10 Termination and accession of Guarantors

Provided that the Borrower complies with the requirements of Clause 14.13 of the Loan Agreement, this Guarantee can be terminated in relation to any Guarantor at any time by the Borrower and the relevant Guarantor without the consent of the Lender (and, following the execution of any agreements entered into in connection with the agreed funding source, without the consent of the party designated by such agreements) provided that a notice of such intended termination is delivered to the Lender (and, following the execution of the agreements entered into in connection with the agreed funding source, to the party designated by such agreements) not later than 15 days before such intended termination. Should the Borrower become subject to the requirement to procure additional guarantees in accordance with Clause 14.13 of the Loan Agreement the Subsidiary or Subsidiaries selected by the Borrower to become new or additional Guarantors (each, a "**New Guarantor**") shall accede to this Guarantee by executing a deed of accession (the "**Deed of Accession**"), the form of which is attached hereto as the Schedule, with any necessary modifications arising from any applicable laws or regulations of the jurisdiction of incorporation of the relevant Guarantor.

2. REPRESENTATIONS AND WARRANTIES OF THE GUARANTOR

Each Guarantor makes, in respect of itself, the following representations and warranties and acknowledges that the Lender has entered into the Loan Agreement in reliance on these representations and warranties.

2.1 Due Organisation

Except as described in Schedule II to the Side Letter, the Guarantor and its Subsidiaries have been duly incorporated and is validly existing as a legal entity under the laws of its jurisdictions of incorporation and has full power and authority (corporate and other) to own or lease its properties and conduct its business as described in Schedule II to the Side Letter, except where the failure to do so would not have a material adverse effect in relation to that Guarantor and its subsidiaries taken as a whole (a "**Material Adverse Effect**"); and the Guarantor and each of its Subsidiaries is duly qualified to do business as a legal entity in all jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except where the failure to do so would not have a Material Adverse Effect.

2.2 Authorisations

The Guarantor has full corporate power and authority to enter into this Guarantee, and this Guarantee has been duly authorised, executed and delivered by that Guarantor, and is a legal, valid and binding obligation of that Guarantor, enforceable against that Guarantor in accordance with its terms, except that the enforcement thereof may be limited by (i) bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and (ii) general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

2.3 No Conflict

Neither the Guarantor nor any of its Subsidiaries is in violation of its charter or by-laws or other constitutive documents; and no default exists, and no event has occurred which, with notice or lapse of time or both, would constitute a default in the due performance and observance of any term, covenant or condition of any agreement or instrument (for the avoidance of doubt including this Guarantee) to which the Guarantor or any of its Subsidiaries is a party or by which the Guarantor or any of its Subsidiaries is bound or to which any of their respective properties is subject, except, in each case, where such default or event would not, individually or in the aggregate, have a Material Adverse Effect.

The execution, delivery and performance of this Guarantee by the Guarantor, the compliance by the Guarantor with all the provisions hereof and the consummation of the transactions contemplated hereby (a) will not require any consent, approval, authorisation or other order of any court, regulatory body, administrative agency or other governmental body (except as such may be required under the securities or Blue Sky laws of the various states of the United States or any securities laws of any jurisdiction other than Russia, Luxembourg, the United Kingdom and the Federal law of the United States) except for such consents, approvals, authorisations or other orders as have been obtained and which are in full force and effect and except for such consents as may be obtained within 30 days of the requirement for such consent arising, (b) will not conflict with or constitute a breach of any of the terms or provisions of, or constitute a default under, the charter or other constitutive documents of the Guarantor, (c) will not conflict with or constitute a breach of any agreement, indenture or other instrument to which the Guarantor or any of its Subsidiaries is a party or by which the Guarantor, any of its Subsidiaries or their respective property or assets are bound, and (d) will not violate or conflict with any laws, administrative regulations or rulings or court decrees applicable to that Guarantor, any of its Subsidiaries or their respective property, except, in the case of clause (c), for any conflict, breach or violation which would not have a Material Adverse Effect.

2.4 Financial Statements

The audited financial statements of the Guarantor and the related notes thereto, as contained in Schedule I and Schedule II to the Side Letter, were prepared in accordance with Russian GAAP consistently applied throughout the periods involved, except as set forth in Schedule II to the Side Letter, and present fairly, in all material respects, the financial position of the Guarantor as at the dates at which they were prepared and the results of the operations and the cash flows of the Guarantor in respect of the periods for which they were prepared. The other financial and statistical information and data set forth in Schedule I and Schedule II to the Side Letter is, in all material respects, accurately presented and prepared on a basis consistent with such financial statements and the books and records of the Guarantor and its Subsidiaries. Since the 31 December, 2002 financial statements contained in Schedule I and Schedule II to the Side Letter and, except as disclosed in Schedule II to the Side Letter, (a) there has been no material adverse change in the condition (financial or otherwise) or affecting the business, prospects, financial position, or results of operations of the Guarantor or the Guarantor and its Subsidiaries taken as a whole, whether or not arising from transactions in the ordinary course of business; and (b) neither the Guarantor nor any of its Subsidiaries have entered into any transaction or agreement material to the Guarantor or to the Guarantor and its Subsidiaries taken as a whole, other than in the ordinary course of business.

The selected Guarantor financial information, as contained in Schedule I and Schedule II to the Side Letter, was prepared on the basis stated therein, consistently applied and without any material adjustments not disclosed therein, and present fairly, in all material respects, those aspects of the financial position of each Guarantor that are stated therein.

2.5 No Other Indebtedness

The Guarantor has no Indebtedness, other than Indebtedness (a) as set forth in the December 31, 2002 audited consolidated balance sheet of the Guarantor; (b) as disclosed in Schedule II to the Side Letter or (c) that in the aggregate would not have a Material Adverse Effect.

2.6 Payment in U.S. Dollars

All payment obligations of the Guarantor under this Agreement are required by the terms hereof to be paid in U.S. dollars, and the Guarantor has received all required approvals, consents, licenses and permissions to make and may make such payments in U.S. dollars.

2.7 Taxes

Except as disclosed in Schedule II to the Side Letter, each of the Guarantor and its Subsidiaries that are also Significant Subsidiaries have duly filed with the appropriate Tax Authorities, or has received an extension for filing with respect to, all tax returns, reports and other information required to be filed by it, and each such tax return, report, or other information was, when filed, accurate and complete in all material respects; and, except as disclosed in Schedule II to the Side Letter, each of the Guarantor and its Subsidiaries that are also Significant Subsidiaries has duly paid, or has made adequate reserves for, all Taxes required to be paid by it and any other assessment, fine or penalty levied against it, and to the best of that Guarantor's knowledge, no Tax deficiency is currently asserted against the Guarantor or any of its subsidiaries that are also Significant Subsidiaries, except, in each case, where any such failure to do so would not have a Material Adverse Effect.

2.8 Litigation and Contracts

Except as set forth in Schedule II to the Side Letter, (A) there are no pending legal or governmental proceedings against the Guarantor or any of its Subsidiaries or any of their respective properties and (B) there are no pending legal or governmental proceedings naming, and, to the best knowledge of the Guarantor, there are no threatened legal or governmental proceedings against or naming, that Guarantor or any of its Subsidiaries or any of their respective properties that, in each case, if determined adversely to the Guarantor or any such Subsidiary, would individually or in the aggregate have a Material Adverse Effect or would have a material adverse effect on the ability of that Guarantor to perform its obligations under this Guarantee and, to the best knowledge of that Guarantor, no such proceedings are contemplated.

2.9 Labour

There are no labour disputes involving the employees of the Guarantor or any of its Subsidiaries that exist, or to the best knowledge of the Guarantor, that are threatened, except where such would not, individually or in the aggregate, have a Material Adverse Effect.

2.10 Title, Licenses and Consents

Except as set forth in Schedule II to the Side Letter, each of the Guarantor and its Subsidiaries possess all certificates, authorisations, licences and permits issued by appropriate governmental agencies or bodies necessary to conduct the business now conducted by it, except, in each case, where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect and neither the Guarantor nor any of its Subsidiaries have received any notice of proceedings relating to the revocation or modification or any such certificate, authorization or permit that, if determined adversely to the Guarantor or any of its Subsidiaries, could have a Material Adverse Effect.

Except as set forth in Schedule II to the Side Letter, each of the Guarantor and its Subsidiaries (A) have good and marketable title to all items of real property owned by it and good and marketable title to all other property and assets owned by it, in each case free and clear of any security interests, liens, encumbrances, equities, claims and other defects that would affect the value thereof or interfere with the use made or proposed to be made thereof by it, and (B) holds any real property and buildings leased by that Guarantor and its subsidiaries under valid, subsisting and enforceable leases with no exceptions that would interfere with the use made or proposed to be made thereof by it, except, in each of the cases (A) and (B), where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect.

Except as set forth in Schedule II to the Side Letter, the Guarantor and each of its Subsidiaries owns or possesses all patents, patent applications, trademarks, service marks, trade names, licenses, copyrights and proprietary or other confidential information currently employed by it in connection with its businesses (collectively, "**intellectual property rights**"), except, in each case, where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect; and neither the Guarantor nor any of its Subsidiaries has received any notice of infringement of or conflict with asserted rights of others with respect to any intellectual property rights that, if determined adversely to the Guarantor or any of its Subsidiaries, could individually or in the aggregate have a Material Adverse Effect.

2.11 Adequate Insurance

The Guarantor and each of its subsidiaries that are also Significant Subsidiaries have, where relevant, applied for insurance with insurer or insurers of sufficient standing against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged in the jurisdiction where they operate, respectively; that Guarantor and each of its Subsidiaries that are also Significant Subsidiaries have not been refused any insurance coverage sought or applied for; and that Guarantor and each of its Subsidiaries that are also Significant Subsidiaries have, where relevant, no reason to believe that they will not be able to obtain, within 60 days of the date hereof, such coverage as may be necessary to continue their business at a cost that would not have a Material Adverse Effect.

2.12 No Withholding or Similar Tax

Under current laws and regulations of Russia and Luxembourg and any respective political subdivisions thereof, and based upon the representations of the Lender set forth in Clause 4.6 (*Representations of the Lender*) of the Loan Agreement, all payments of principal and/or interest, Additional Amounts, Tax Indemnity Amounts or any other amounts payable on or in respect of this Guarantee may be paid by the Guarantor to the Lender in U.S. dollars and will not be subject to Taxes under laws and regulations of Russia, or any political subdivision or Taxing Authority thereof or therein, respectively, and will otherwise be free and clear of any other Tax, duty, withholding or deduction in Luxembourg, Russia, or any political subdivision or Taxing Authority thereof or therein (provided, however, that the Guarantor makes no representation as to any income or similar Tax of Luxembourg (or any Qualifying Jurisdiction) which may be assessed thereon) and without the necessity of obtaining any governmental authorisation in Russia or any political subdivision or Taxing Authority thereof or therein.

2.13 Not an Investment Company

The Guarantor is not and, after giving effect to this Guarantee will not be, required to register as an "investment company" as defined in the U.S. Investment Company Act of 1940, as amended.

2.14 No Liquidation or Similar Proceedings

No receiver or liquidator (or similar person) has been appointed in respect of the Guarantor or any Subsidiary of the Guarantor or in respect of any part of the assets of the Guarantor or any Subsidiary of the Guarantor; no resolution, order of any court, regulatory body, governmental body or otherwise, or petition or application for an order, has been passed, made or presented for the winding up of the Guarantor or any Subsidiary of the Guarantor or for the protection of the Guarantor or any such Subsidiary from its creditors; and that Guarantor has not, and no Subsidiary of the Guarantor has, stopped or suspended payments of its debts, become unable to pay its debts or otherwise become insolvent.

2.15 Certificates

Each certificate signed by any director or officer of the Guarantor and delivered to the Lender or counsel for the Lender on the date of granting this Guarantee shall be deemed to be a representation and warranty by the Guarantor to the Lender as to the matters covered thereby.

2.16 *Pari Passu* Obligations

The obligations of the Guarantor under this Guarantee will rank at least *pari passu* in right of payment with all other unsecured and unsubordinated obligations of that Guarantor, except as otherwise provided by mandatory provisions of applicable law.

2.17 No Stamp Taxes

Under the laws of Russia in force at the date hereof, it is not necessary that any stamp, registration or similar Tax be paid on or in relation to this Guarantee.

2.18 Health, Safety and Environment

Each of the Guarantor and its Subsidiaries is in compliance with all statutes, and all rules, regulations, requirements, decisions and orders of, and agreements with, any governmental agency or body and any court, relating to the protection of human health and safety (including occupational health and safety), the use, handling, transportation, disposal or release of hazardous or toxic substances, or the protection or restoration of the environment (collectively, "**hse laws**"), and has received, and is in compliance with all terms and conditions of, all permits, licenses or other approvals required of them under applicable hse laws in order to conduct their businesses, except, in each case, where the failure to be in compliance with or receive such permits, licenses or other approvals would not, individually or in the aggregate, have a Material Adverse Effect.

Neither the Guarantor nor any of its Subsidiaries is subject to any claims, costs or liabilities associated with any hse laws (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with hse laws or to acquire or comply with the terms and conditions of any permit, license or approval under any hse laws, any constraints on operating activities and any potential liabilities to third parties) which could, individually or in the aggregate, have a Material Adverse Effect; and, to the best of the Guarantor's knowledge, having made all due inquiries, there are no past or present events, conditions, circumstances, activities, practices, incidents or actions that would be reasonably likely to give rise to such costs, liabilities or claims.

2.19 Events of Default

No event has occurred or circumstances arisen which would (whether or not with the giving of notice and/or the passage of time) constitute an Event of Default in relation to the Guarantor or a default under any agreement or instrument evidencing any Indebtedness of the Guarantor.

2.20 Repetition

Each of the representations and warranties in Clause 2 (*Representations and Warranties of the Guarantor*) shall be deemed to be repeated by the Guarantor on the date of the granting of the Guarantee and, as long as the Guarantee in relation to the Guarantor has not been terminated, each of Clause 2.1 (*Due Organisation*) (solely with respect to the Guarantor and provided that, upon the occurrence of a merger or sale of assets pursuant to Clause 3.5 (*Mergers and Similar Transactions*), the Guarantor is the Surviving Entity), Clause 2.2 (*Authorisations*), Clause 2.3 (*No Conflict*) and Clause 2.8 (*Litigation and Contracts*) (solely with respect to any legal or governmental proceedings pending or, to the best knowledge of the Guarantor, threatened in writing delivered to the Guarantor before any court, tribunal, arbitration panel or Agency challenging the lawfulness, validity or enforceability of this Guarantee (except for any such proceedings as may have been disclosed in writing by that Guarantor to the Lender prior to the relevant date of repetition)) shall be deemed to be repeated and updated on each Interest Payment Date. The Guarantor shall inform the Lender in writing of any breach of prospective breach of such deemed repeated representations and warranties as soon as it becomes aware of the same. Each New Guarantor shall be deemed to make each of the above representations and warranties on the date on which it executes the Deed of Accession, with such modifications as are appropriate to take into account the jurisdiction in which such New Guarantor is incorporated or resident for tax purposes.

3. COVENANTS OF THE GUARANTOR

3.1 Liens

No Guarantor will and will not permit, any of its Subsidiaries to create, incur, assume or suffer to exist any Lien (other than Permitted Liens) on any asset now owned or hereafter acquired, or any income or profits therefrom, which secures any Indebtedness, unless this Guarantee and any other sum owing hereunder are secured by a Lien equally and rateably with the Liens securing such other Indebtedness; provided that if such Indebtedness is subordinated Indebtedness of that Guarantor, the Lien securing such Indebtedness shall be subordinate or junior to the Lien securing this Guarantee, with the same relative priority as such Indebtedness shall have with respect to this Guarantee.

3.2 Stay, Extension and Usury Laws

Each Guarantor covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Guarantee; and each Guarantor (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), but will suffer and permit the execution of every such power as though no such law had been enacted.

3.3 Asset Sales

No Guarantor will, or will permit any of its Subsidiaries to, consummate any Asset Sale, unless the proceeds received by that Guarantor or such Subsidiary, as the case may be, are at least equal to the Fair Market Value of the assets sold or disposed of (as determined in good faith by the Board of Directors of that Guarantor or the relevant Subsidiary) and an amount equal to such proceeds (less any costs plus reasonable expenses incurred in relation to such Asset Sale) is either (a) applied to repay permanently any Indebtedness (other than subordinated Indebtedness) of the Borrower or any of its Subsidiaries or (b) invested in assets (including Capital Stock) of a nature or type that is used or usable in the business of the Borrower or any of its Subsidiaries, being any food and beverage business that the Borrower or any such Subsidiary may conduct at the relevant time, in each case within 360 days of the date when such proceeds are received.

3.4 Transactions with Affiliates and Related Persons

- (a) Subject to sub-Clause 3.4(b) below, no Guarantor shall, or shall permit any of its Subsidiaries to, directly or indirectly, enter into, permit to exist, renew or extend any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of property or assets, or the rendering of any service) (each a "Transaction") with, or for the benefit of, any Related Person of the relevant Guarantor (or any Affiliate of such Person) or with, or for the benefit of, any Affiliate of the relevant Guarantor, unless any such Transaction or series of related Transactions is made upon fair and reasonable terms no less favourable to that Guarantor or such Subsidiary, as the case may be, than could be obtained, at the time of such Transaction or, if such Transaction is pursuant to a written agreement, at the time of the execution of the agreement providing therefor, in a comparable arms'-length transaction with, or for the benefit of, a Person that is not a Related Person of the relevant Guarantor (or any Affiliate of such Person) or an Affiliate of the relevant Guarantor.

No such Transaction shall be consummated unless, in the case of a Transaction or series of related transactions involving aggregate consideration equal to or in excess of (i) U.S.\$1 million, the relevant Guarantor or such Subsidiary, as the case may be, obtains the approval of its Board of Directors and (ii) U.S.\$25 million, the relevant Guarantor or such Subsidiary shall in addition have received (and shall have delivered a copy to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements)) a written opinion of an internationally or nationally recognised investment banking firm addressed to, and stating that the Transaction or series of related Transactions is fair from a financial point of view to, the relevant Guarantor or such Subsidiary.

- (b) The limitation does in sub-Clause 3.4(a) above shall not limit, and shall not apply to any Transaction or series of related Transactions solely between the relevant Guarantor or any of its Subsidiaries or the Borrower and any of the Subsidiaries of the Borrower or solely between Subsidiaries of the relevant Guarantor.

3.5 Merger and Similar Transactions

- (a) Subject to sub-Clause 3.5(b) below, no Guarantor shall merge with or into or enter into a transaction whose effect would be similar to that of a merger (including, but not limited to, by way of an acquisition through a share-for-share exchange or contribution of assets) or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets (each a "**merger**") to, any Person or permit any Person to merge with or into that Guarantor:
- (i) if such merger would result in a Rating Decline;
 - (ii) unless the Guarantor shall be the continuing Person, or the Person (if other than the Guarantor) into which such Guarantor is merged or that acquired or leased such property and assets of the relevant Guarantor (the "**Surviving Entity**") shall be a company organised and validly existing under the laws of the Russian Federation, a member of the European Union (as the European Union is constituted on the date hereof), Switzerland or a State of the United States of America or the District of Columbia, and shall expressly assume, by amendment hereto, executed and delivered by such continuing Person to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), in form and substance satisfactory to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), the due and punctual payment of amounts due on this Guarantee, and the due and punctual performance and observance of all the covenants, conditions and other obligations of the Guarantor in respect of this Guarantee;
 - (iii) unless, in the case of a sale, conveyance, transfer, lease or other disposal of all or substantially all of the Guarantor's property and assets, such property and assets shall have been transferred as an entirety or substantially an entirety in one transaction or a series of related transactions to one Person;
 - (iv) unless immediately before and after giving effect to such transaction or series of transactions on a pro forma basis (and treating any Indebtedness which becomes, or is anticipated to become, an obligation of the Surviving Entity as a result of such transaction or series of transactions as having been incurred by the Surviving Entity at the time of such transaction or series of transactions), no Default or Event of Default shall have occurred and be continuing;
 - (v) unless immediately before and after giving effect to such transaction or series of transactions on a pro forma basis (and treating any Indebtedness which becomes, or is anticipated to become, an obligation of the Surviving Entity as a result of such transaction or series of transactions as having been incurred by the Surviving Entity at the time of such transaction or series of transactions) the Borrower, any Guarantor, or any Person becoming the successor obligor of the Loan or this Guarantee, as the case may be, would be able to incur an additional \$1.00 of Indebtedness pursuant to Clause 14.10 (*Financial Covenant*) of the Loan Agreement;
 - (vi) unless the Guarantor delivers to the Lender an opinion of counsel or tax adviser in form and substance reasonably acceptable to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), to the effect that neither the Lender nor any agreed funding source will recognise any income, gain or loss for Tax purposes from any such merger of the Guarantor and that the Lender and any agreed funding source would, after such merger, be subject to Taxes in the same amounts and in the same manner and at the same times as would have been the case if such merger had not occurred; and
 - (vii) unless the Guarantor delivers to the Lender an opinion of counsel reasonably acceptable to the Lender, in form and substance satisfactory to the Lender (and, following the execution of any supplemental agreements entered into in connection with the agreed funding source, to the party designated by such agreements), stating that such merger or transfer and such supplemental agreement comply with this provision, that all legal conditions precedent provided for herein relating to such transaction have been complied with and that this Agreement and the Loan constitute legal, valid and binding obligations of the continuing Person, enforceable in accordance with their terms, subject, in the case of the opinion of counsel, to customary exceptions, qualifications and limitations.

- (b) The restrictions in sub-Clauses 3.5(a)(i), (iii) and (v) above shall not apply to any mergers between the Borrower and any of the Guarantors or Borrower's Subsidiaries or any of the or between two or more of the Guarantors or between any of the Guarantors and any of the Subsidiaries. The restrictions in sub-Clauses 3.5(a)(vi) and (vii) above shall not apply to any mergers between any of the Guarantors or any of the Subsidiaries or between two or more of the Guarantors or between any of the Guarantors and any of the Subsidiaries if (i) both relevant entities are incorporated in Russia, and (ii) both relevant entities have no business presence or tax residency outside Russia.

3.6 Maintenance of Authorisations

So long as any amount remains outstanding hereunder:

- (i) each Guarantor shall, and it shall procure that each of its Subsidiaries that are also Significant Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary, in the opinion of such Guarantor or the relevant Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property related to its business; and
- (ii) each Guarantor shall, and it shall procure that its Subsidiaries that are also Significant Subsidiaries shall, make or cause to be made all registrations, recordings and filings and shall obtain and maintain all consents, licences, approvals and authorisations, which may at any time be required to be obtained or made in Russia or any other relevant jurisdiction for the purposes of the execution, delivery or performance of this Guarantee and for the validity and enforceability thereof;

provided that if the Guarantor or any such Significant Subsidiary can remedy any failure to comply with the above within 60 days of such failure, this covenant shall be deemed not to have been breached.

3.7 Maintenance of Property

So long as any amount remains outstanding hereunder, each Guarantor and its Subsidiaries that are also Significant Subsidiaries will cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipments and shall cause to be made all necessary repairs, renewals, replacements and improvements thereof, all as, in the judgments of that Guarantor or such Significant Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times.

3.8 Payment of Taxes

Each Guarantor shall, and shall cause each of its Subsidiaries to pay or discharge, before the same shall become overdue all Taxes, assessments and governmental levies, except (i) as contested in good faith and by appropriate proceedings and for which adequate reserves in accordance with appropriate accounting provisions have been made or (ii) the amount of which, together with all such other unpaid and undischarged Taxes, assessments and governmental levies does not in aggregate exceed U.S.\$1 million.

3.9 Financial Covenant

No Guarantor shall, or shall permit any of its Subsidiaries to, incur any Indebtedness, other than:

- (i) the Loan;
- (ii) any Indebtedness in circumstances where: (1) no Event of Default shall have occurred and be continuing at the time or would occur as a consequence of the incurrence of such Indebtedness, and (2) after giving effect to the incurrence of such Indebtedness on a pro forma basis and the receipt and application of the proceeds therefrom, immediately after such incurrence the ratio of the consolidated Indebtedness of the Group to Consolidated EBITDA is 4:1 or lower; and
- (iii) in addition, any Indebtedness incurred by such Guarantor or Subsidiary, other than any Indebtedness owed to any Affiliate of the Borrower or an Affiliate of any Guarantor, which, when aggregated with all the other Indebtedness of the Group, would not exceed U.S. \$100 million.

3.10 No Limitation on Dividend or Other Payments Affecting Subsidiaries

- (a) Subject to sub-clause 3.9(b) below, no Guarantor shall or shall cause or permit any of its Subsidiaries to, directly or indirectly create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of itself or any Subsidiary to:
 - (i) pay dividends or make any other distributions on or in respect of its Capital Stock to the Borrower or such Guarantor or any Subsidiary of the Borrower or pay any Indebtedness owed to the Borrower or such Guarantor or any such Subsidiary;
 - (ii) make loans or advances to, or guarantee any Indebtedness or other obligations of the Borrower or such Guarantor; or
 - (iii) transfer any of its property or assets to the Borrower or such Guarantor or any of the Borrower's or such Guarantor's Subsidiaries.
- (b) The provisions of sub-Clause 3.9(a) above shall not restrict any encumbrance or restriction:
 - (i) arising solely by operation of law;
 - (ii) existing under an agreement in effect on the date hereof; provided, however, that the terms, conditions and scope of any such encumbrance or restriction included in any such agreement may be amended only if:
 - (1) such amended encumbrance or restriction, when taken together with all the other encumbrances and restrictions in such agreement (as amended), will not be materially more restrictive or disadvantageous (A) to the agreed funding source or the Guarantor than the encumbrance or restriction being amended or (B) to the Guarantor than is customary in comparable transactions (in each case, as determined by the Guarantor); and
 - (2) the amended terms, conditions and scope of any such amended encumbrance or restriction, when taken together with the terms, conditions and scope of all the other encumbrances and restrictions in such agreement (as amended), will not materially adversely affect the Guarantor's ability to make payments on this Guarantee (as determined by the Guarantor); or
 - (iii) contained in the terms of any Indebtedness incurred in compliance with Clause 14.10 (*Financial Covenant*) of the Loan Agreement or in any agreement pursuant to which such Indebtedness was issued, if:
 - (1) the encumbrances and restrictions in any such agreement, when taken as a whole, will not be materially more restrictive or disadvantageous to the Guarantor than is customary in comparable transactions (as determined by the Guarantor); and
 - (2) the terms, conditions and scope of any such encumbrances and restrictions in any such agreement, when taken as a whole, will not materially adversely affect the Guarantor's ability to make payments on this Guarantee (as determined by the Guarantor).

3.11 Insurance

Each of the Guarantors will obtain and maintain insurance with an insurer or insurers of sufficient standing against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged in the jurisdiction where they operate, respectively, at a cost that would not have a Material Adverse Effect; provided that the relevant Guarantor can remedy any failure to comply with the above within 30 days, this covenant shall be deemed not to have been breached.

3.12 Financial Information

Each Guarantor will, at its own expense, so long the Loan remains outstanding, furnish to the Lender, copies of all reports and other communications (financial or other) furnished to stockholders of the Guarantor and furnish to the Lender, (i) as promptly as practicable, copies of any reports and financial statements furnished to or filed with any securities exchange (other than any securities exchange in Russia) on which any class of securities of the Guarantor is listed, if any; and (ii) such additional publicly available information concerning the business and financial condition of the Guarantor as the Lender may from time to time reasonably request. In addition, each Guarantor shall furnish to the Lender, such information as the London Stock Exchange plc (or any other or further stock exchange or stock exchanges or any other relevant authority or authorities on which the instruments issued to the agreed funding source may, from time to time, be listed or admitted to trading) may require in connection with the listing or admittance to trading on such stock exchange or relevant authority of instruments issued to the agreed funding source.

If so requested by the Lender, the Guarantor shall deliver to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), within 14 days of such request, an Officers' Certificate stating that to the best of each of the Officers' knowledge (i) the Guarantor has kept, observed, performed and fulfilled each and every covenant, and complied with the covenants and conditions contained in this Agreement and (ii) the Guarantor is not in default in the performance or observance of any of the terms, provisions and conditions hereof (or, if a Default or Event of Default shall have occurred, describing all such Defaults or Events of Default of which he may have knowledge).

4. TAXATION

4.1 Additional Amounts

- (a) Subject to Clause 4.1(b), all payments made by each Guarantor under or with respect to this Guarantee will be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment, or other governmental charge (including penalties, interest and other liabilities related thereto) (collectively, "**Taxes**") imposed or levied by or on behalf of any government or political subdivision or territory or possession of any government or authority or Agency therein or thereof having the power to tax (each, a "**Taxing Authority**") within the jurisdiction in which the relevant Guarantor is resident for tax purposes or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), unless the relevant Guarantor is required to withhold or deduct Taxes by law or by the interpretation or administration thereof. For the avoidance of doubt, this Clause 4.1 shall not apply to any Taxes on income payable by the Lender.
- (b) If at any time a Guarantor is required to withhold or deduct any amount for or on account of Taxes imposed or levied by or on behalf of any Taxing Authority within the jurisdiction in which the relevant Guarantor is resident for tax purposes or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) from any payment made under or with respect to the Guarantee, that Guarantor, failing which the other Guarantors, shall, on the due date for such payment, pay such additional amounts ("**Additional Amounts**") as may be necessary so that the net amount received by the Lender (including Additional Amounts) in U.S. dollars after such withholding or deduction will not be less than the amount the Lender would have received if such Taxes had not been withheld or deducted and free from liability in respect of such withholding or deduction; provided, however, that for the avoidance of doubt, such Additional Amounts shall not be payable with respect to any Taxes on income payable by the Lender.
- (c) Each Guarantor will also:
 - (i) make such withholding or deduction; and
 - (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law.
- (d) If the Lender pays any amount in respect of such Taxes, in respect of which Additional Amounts are payable (without prejudice to, and duplication of, the provisions of Clause 4.3 (*Tax Indemnity*)), each relevant Guarantor shall reimburse the Lender in U.S. dollars for such payment on demand.
- (e) Whenever this Guarantee mentions, in any context, the payment of amounts based upon the principal or premium, if any, interest or of any other amount payable under or with respect to the Loan or the Guarantee, this includes, without duplication, payment of any Additional Amounts and Tax Indemnity Amounts that may be applicable.

The foregoing provisions shall apply, modified as necessary, to any Taxes imposed or levied by any Taxing Authority in any jurisdiction in which any Guarantor or any successor of the Borrower or of any Guarantor is organised.

4.2 Payments

The Lender shall assist each Guarantor in ensuring that all payments made under this Guarantee are exempt from deduction or withholding of Tax.

4.3 Tax Indemnity

Without prejudice to, and without duplication of, the provisions of Clause 4.1 (*Additional Amounts*),

- (a) if at any time the Lender makes or is required to make any payment to a Person (other than to or for the account of the agreed funding source) on account of Tax (other than Taxes on income payable by the Lender) in respect of this Guarantee or in respect of any instruments issued to, or documents entered into with, the agreed funding source imposed by any Taxing Authority of or in Russia, Luxembourg or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes, or any liability in respect of any such payment is asserted, imposed, levied or assessed against the Lender, each Guarantor shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender, indemnify the Lender against such payment or liability, together with any interest, penalties, costs and expenses payable or Incurred in connection therewith; and
- (b) if at any time a Taxing Authority imposes an obligation on the Lender to withhold or deduct any amount on any payment made or to be made by the Lender to or for the account of the agreed funding source and the Lender is required by any instruments issued to, or documents entered into with, the agreed funding source, to pay additional amounts to such agreed funding source in connection therewith, each Guarantor shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender, pay to the Lender such additional amounts as may be necessary so that the net amount received by the agreed funding source (including such additional amounts) in U.S. dollars after such withholding or deduction will not be less than the amount such agreed funding source would have received if such withholdings or deductions had not been made and free from liability in respect of such withholding or deduction.

Any payments required to be made by any Guarantor under this Clause 4.3 are collectively referred to as "**Tax Indemnity Amounts**". For the avoidance of doubt, the provisions of this Clause 4.3 shall not apply to any withholding or deductions of Taxes with respect to this Guarantee which are subject to payment of Additional Amounts under Clause 4.1 (*Additional Amounts*).

4.4 Tax Claims

If the Lender intends to make a claim for any Tax Indemnity Amounts pursuant to Clause 4.3 (*Tax Indemnity*), it shall notify each relevant Guarantor thereof; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organization of its affairs.

4.5 Tax Credits and Tax Refunds

- (a) If any Additional Amounts are paid under Clause 4.1 (*Additional Amounts*) or Tax Indemnity Amounts are paid under Clause 4.3 (*Tax Indemnity*) by any Guarantor for the benefit of the Lender and the Lender, in its reasonable opinion, determines that it has received or been granted a credit against, a relief or remission for, or a repayment of, any Tax, then, if and to the extent that the Lender, in its reasonable opinion, determines that such credit, relief, remission or repayment is in respect of or calculated with reference to the deduction or withholding giving rise to such Additional Amounts or, in the case of Tax Indemnity Amounts, with reference to the liability, expense or loss to which the payment giving rise to such Tax Indemnity Amounts relates, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to each relevant Guarantor such amount as the Lender shall, in its reasonable opinion, have concluded to be attributable to such deduction or withholding or, as the case may be, such liability, expense or loss; provided that the Lender shall not be obliged to make any payment under this Clause 4.5 in respect of such credit, relief, remission or repayment until the Lender is, in its reasonable opinion, satisfied that its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled. Any such payment shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or prepayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to each relevant Guarantor hereunder and shall be accepted by each relevant Guarantor in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding. Nothing contained in this Clause 4.5 shall interfere with the right of the Lender to arrange its tax affairs generally in whatever manner it thinks fit nor oblige the Lender to disclose any information relating to its tax affairs generally or any computations in respect thereof.
- (b) If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed by the jurisdiction in which the relevant Guarantor is resident for tax purposes or Luxembourg (or any Qualified Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) (i) such Tax is deducted or withheld by any Guarantor and pursuant to Clause 4.1 (*Additional Amounts*) an increased amount is paid by any relevant Guarantor to the Lender in respect of such deduction or withholding, and (ii) following the deduction or withholding of Tax as referred to above, (A) the relevant Guarantor applies on behalf of the Lender to the relevant Taxing Authorities for a tax refund and such tax refund is credited by the relevant Taxing Authorities to the Lender or (B) if such tax refund is otherwise credited by a relevant Taxing Authority to the Lender pursuant to a final decision of such Taxing Authority, the Lender shall as soon as reasonably possible notify such relevant Guarantor of the receipt of such tax refund and promptly transfer the entire amount of the tax refund to a bank account of each relevant Guarantor specified for that purpose by each relevant Guarantor.

4.6 Representations of the Lender

The Lender represents that (a) it is a bank which at the date hereof is a resident of Luxembourg, is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg; (b) it will account for the Loan on the date of closing on its balance sheet as an asset under "loans and advances to customers" and any arrangements with the agreed funding source as a liability under "liabilities evidenced by paper" and (c) at the date hereof, it does not have a permanent establishment in Russia.

The Lender shall make reasonable and timely efforts to assist each relevant Guarantor to obtain relief from the withholding of income tax in any jurisdiction in which the relevant Guarantor is resident for tax purposes, pursuant to the double taxation treaty between the jurisdiction in which the relevant Guarantor is resident for tax purposes and the jurisdiction in which the Lender is incorporated, including its obligations under Clause 4.8 (*Delivery of Forms*). The Lender makes no representation as to the application or interpretation of any double taxation treaty between the jurisdiction in which the relevant Guarantor is resident for tax purposes and the jurisdiction in which the Lender is incorporated.

4.7 Exceptions

The Lender agrees promptly, upon becoming aware of such, to notify each Guarantor if it ceases to be resident in Luxembourg or a Qualifying Jurisdiction or if any of the representations set forth in Clause 4.6 (*Representations of the Lender*) are no longer true and correct. If the Lender ceases to be resident in Luxembourg or a Qualifying Jurisdiction, then, except in circumstances where the Lender has ceased to be resident in Luxembourg or a Qualifying Jurisdiction by reason of any Change of Law (including a change in a double taxation treaty or in such law or treaty's application or interpretation), in each case taking effect after the date of this Guarantee, no Guarantor shall be liable to pay to the Lender under Clause 4.1 (*Additional Amounts*) or Clause 4.3 (*Tax Indemnity*) any sum in excess of the sum it would have been obliged to pay if the Lender had not ceased to be resident in Luxembourg or a Qualifying Jurisdiction.

4.8 Delivery of Forms

The Lender shall within 30 calendar days of the request of any Guarantor, to the extent it is able to do so under applicable law including the laws of the jurisdiction in which the relevant Guarantor is resident for tax purposes, deliver to that Guarantor a certificate issued by the competent Taxing Authority in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) confirming that the Lender is a tax resident in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and such other information or forms as the relevant Guarantor may need to be duly completed and delivered by the Lender to enable that Guarantor to apply to obtain relief from deduction or withholding of the relevant Tax after the date of this Guarantee or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of the relevant Tax has not been obtained. The Lender shall, within 30 calendar days of the request of any Guarantor, to the extent it is able to do so under applicable laws, including the laws of the jurisdiction in which the relevant Guarantor is resident for tax purposes, from time to time deliver to that Guarantor any additional duly completed application forms as need to be duly completed and delivered by the Lender to enable that Guarantor to apply to obtain relief from deduction or withholding of the relevant Tax or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of the relevant Tax has not been obtained. The certificate and, if required, other forms referred to in this Clause 4.8 shall be duly signed by the Lender, if applicable, and stamped or otherwise approved by the competent Taxing Authority in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and apostilled or otherwise legalised. If a relief from deduction or withholding of the relevant Tax under this Clause 8.8 has not been obtained and further to an application of that Guarantor to the relevant Taxing Authorities the latter requests the Lender's rouble bank account details, the Lender shall at the request of that Guarantor (x) use reasonable efforts to procure that such rouble bank account of the Lender is duly opened and maintained, and (y) thereafter furnish that Guarantor with the details of such rouble bank account. The relevant Guarantor shall pay for all costs associated, if any, with opening and maintaining such rouble bank account.

4.9 Notification of Requirement to Deduct Tax

If, at any time, a Guarantor is required by law to make any deduction or withholding from any sum payable by it hereunder, or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated, that Guarantor shall promptly notify the Lender.

4.10 Evidence of Payment of Tax

Each relevant Guarantor will make all reasonable endeavours to obtain certified copies, and translations into English, of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Taxing Authority imposing such Taxes. That Guarantor will furnish to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), within 60 calendar days after the date the payment of any Taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment by that Guarantor or, if such receipts are not obtainable, other evidence of such payments by that Guarantor.

5. CURRENCY OF ACCOUNT AND PAYMENT

5.1 Currency of Account

The U.S. dollar is the currency of account and payment for each and every sum at any time due from each Guarantor hereunder.

5.2 Currency Indemnity

If any sum due from any Guarantor under this Guarantee or any order or judgment given or made in relation hereto has to be converted from the currency (the "**first currency**") in which the same is payable hereunder or under such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against such Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation hereto, the relevant Guarantor shall indemnify and hold harmless the Lender from and against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Lender may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

6. ASSIGNMENTS AND TRANSFERS

6.1 No Assignments and Transfers by the Guarantors

No Guarantor shall be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

6.2 Assignments by the Lender

- (a) Prior to an Event of Default, the Lender may (i) on or at any time after the date hereof assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder (save for (x) its rights to principal, interest and other amounts paid and payable under this Guarantee and (y) its right to receive amounts paid and payable under any claim, award or judgment relating to this Guarantee in favour of the agreed funding source) to or on behalf of the agreed funding source and (ii) subject to the prior written consent of the Guarantors (such consent not to be unreasonably withheld or delayed) and except as may be otherwise specifically provided under the agreements entered into in connection with the agreed funding source, assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder to any company which, as a result of any amalgamation, merger or reconstruction or which, as a result of any agreement with the Lender, or any previous substitute, owns beneficially the whole or substantially the whole of the undertaking, property and assets owned by the Lender prior to such amalgamation, merger, reconstruction or agreement coming into force and where, in the case of any company which will own the whole or substantially the whole of the undertaking, property or assets of the Lender, the substitution of that company as principal debtor in relation to the agreed funding source would not be materially prejudicial to the interests of the agreed funding source or the Guarantors. Any reference in this Guarantee to any such assignee or transferee pursuant to subclause (ii) of this Clause 6.2(a) shall be construed accordingly and, in particular, references to the rights, benefits and obligations hereunder of the Lender, following such assignment or transfer, shall be references to such rights, benefits or obligations by the assignee or transferee.
- (b) On or following an Event of Default, the Lender may, by notice to the Guarantors, assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder to the agreed funding source, or any assignee or transferee appointed in connection with the agreed funding source. Any reference in this agreement to any such assignee or transferee shall be construed accordingly and, in particular, references to the rights, benefits and obligations hereunder of the Lender, following such assignment or transfer, shall be references to such rights, benefits or obligations by the assignee or transferee appointed in connection with the agreed funding source.

7. PARTIAL INVALIDITY

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

8. NOTICES; LANGUAGE

8.1 Communications in Writing

Each communication to be made hereunder shall be made in writing and, unless otherwise stated, shall be made by fax or letter.

8.2 Delivery

Any communication or document to be made or delivered by one person to another pursuant to this Agreement shall, unless that other person has by 15 calendar days' written notice to the same specified another address, be made or delivered to that other person at the address identified with its signature below and shall be effective or when left at that address (in the case of a letter) or when received by the addressee (in the case of a fax). Provided that any communication or document to be made or delivered by one party to the other party shall be effective only when received by such other party and then only if the same is expressly marked for the attention of the department or officer identified with the such other party's signature below, or such other department or officer as such other party shall from time to time specify for this purpose.

8.3 Language

This Agreement shall be signed in English. Each communication and document made or delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation thereof into English certified by an officer of the person making or delivering the same as being a true and accurate translation thereof.

9. GOVERNING LAW AND JURISDICTION

9.1 English Law

This Guarantee is governed by, and shall be construed in accordance with, English law.

9.2 English Courts

Each Guarantor irrevocably agrees that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which arise out of or in connection with this Guarantee ("**Proceedings**") and, for such purposes, irrevocably submit to the jurisdiction of such courts.

9.3 Appropriate Forum

Each Guarantor irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes (as defined below), and agrees not to claim that any such court is not a convenient or appropriate forum.

9.4 Service of Process

Each Guarantor agrees that the process by which any Proceedings in England are begun may be served on them by being delivered to Law Debenture Corporate Services Limited, or their registered offices for the time being. If any Person mentioned in this Clause is not or ceases to be effectively appointed to accept service of process on any Guarantor's behalf, the relevant Guarantor shall immediately appoint a further Person in England to accept service of process on its behalf. Nothing in this Clause shall affect the right of either party hereto to serve process in any other manner permitted by law.

9.5 Non-exclusivity

The submission to the jurisdiction of the English courts in accordance with Clause 9.2 (*English Courts*) hereof shall not, and shall not be construed so as to, limit the right of any party hereto to take Proceedings in any other court of competent jurisdiction.

9.6 Consent to Enforcement, etc.

Each Guarantor consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including, without limitation, the making, enforcement or execution against any property whatsoever, irrespective of its use or intended use, of any order or judgement which is made or given in such Proceedings.

9.7 Arbitration

If any dispute or difference of whatever nature howsoever arises from or in connection with this Guarantee, or any supplement, modifications or additions thereto, (each a "**Dispute**"), the Lender may elect, by notice to each Guarantor, to settle such claim by arbitration in accordance with the following provisions. Each Guarantor hereby agrees that (regardless of the nature of the Dispute) any Dispute may be settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the "**Rules**") as at present in force by a panel of three arbitrators appointed in accordance with the Rules. The seat of any reference to arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The language of any arbitral proceedings shall be English. The appointing authority for the purposes set forth in Articles 7(2) and 7(3) of the Rules shall be the London Court of International Arbitration.

9.8 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Guarantee has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Guarantee, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

IN WITNESS whereof this Guarantee has been entered into as a deed poll by each Guarantor on the date which appears first on page 1.

Executed as a deed by
ОАО ЛИАНОЗОВО DAIRY PLANT
and signed and delivered as a deed by:

/s/ M. BYRDIN

M. Byrdin

on its behalf in the presence of:

Witness:

/s/ R. BOLOTOVSKY

Bolotovskiy R. V.

Address: 109028, Moscow, Yauzsky Bulvar, d. 16/15 R.
306

and

signed and delivered as a deed by:

/s/ N. GORCHUKOVA

N. Gorchukova

on its behalf in the presence of:

Witness:

/s/ S. STYAZHKIN

Styazhkin S.V.

Address: 109028, Moscow, Yauzsky Bulvar, d. 16/15 R.
306

Executed as a deed by
ОАО ТСАРИТСИНО DAIRY PLANT
and signed and delivered as a deed by:

/s/ L. USIKOVA

L. Usikova

on its behalf in the presence of:

/s/ R. BOLOTOVSKY

Bolotovskiy R. V.

Address: 109028, Moscow, Yauzsky Bulvar, d. 16/15 R.
306

and

signed and delivered as a deed by:

/s/ N. GORCHUKOVA

N. Gorchukova

on its behalf in the presence of:

/s/ S. STYAZHKIN

Styazhkin S.V.

Address: 109028, Moscow, Yauzsky Bulvar, d. 16/15 R.
306

Executed as a deed by
ZAO TRADE COMPANY WIMM-BILL-DANN
and signed and delivered as a deed by:

/s/ D. KOLOKATOV

D. Kolokatov

on its behalf in the presence of:

/s/ R. BOLOTOVSKY

Bolotovskiy R. V.

Address: 109028, Moscow, Yauzsky Bulvar, d. 16/15 R.
306

and

signed and delivered as a deed by:

/s/ V. GURIEVA

V. Gurieva

on its behalf in the presence of:

/s/ S. STYAZHKIN

Styazhkin S.V.

Address: 109028, Moscow, Yauzsky Bulvar, d. 16/15 R.
306

Executed as a deed by
UBS (LUXEMBOURG) S.A.
and signed and delivered as a deed by:

/s/ M. SCHWITTER

M. Schwitter

on its behalf in the presence of:

Witness:

/s/ M. WEIL

M. Weil

Address: UBS (Luxembourg) S.A., 17-21 bd Joseph II,
P.O. Box 2, L-2010 Luxembourg

and

signed and delivered as a deed by:

/s/ F. GERSTER

F. Gerster

on its behalf in the presence of:

Witness:

/s/ M. WEIL

M. Weil

Address: UBS (Luxembourg) S.A., 17-21 bd Joseph II,
P.O. Box 2, L-2010 Luxembourg

Schedule

Form of Guarantor Deed of Accession

To: UBS (Luxembourg) S.A.

From: [Subsidiary]
and
Wimm-Bill-Dann Foods OJSC

Dated:

Dear Sirs,

1. We refer to a deed of guarantee dated as of • 2003 and made between UBS (Luxembourg) S.A. as Issuer, OJSC and OAO Lianozovo Dairy Plant, OAO Tsaritsino Dairy Plant and ZAO Trade Company Wimm-Bill-Dann as Guarantors (the "**Deed of Guarantee**").
2. Terms defined in the Deed of Guarantee shall bear the same meaning herein.
3. The Borrower requests that [Subsidiary] become a New Guarantor pursuant to Clause 1.10 (*Termination and Accession of Guarantors*) of the Deed of Guarantee.
4. [Subsidiary] is a [corporate form] duly organised under the laws of [name of relevant jurisdiction].
5. [Subsidiary] confirms that it has received from the Borrower a true and up-to-date copy of the Loan Agreement as at the date hereof.
6. [Subsidiary] undertakes, upon its becoming a Guarantor, to perform all the obligations expressed to be undertaken under the Deed of Guarantee by a Guarantor and agrees that it shall be bound by the Deed of Guarantee [add any other agreements binding on Guarantors] in all respects as if it had been an original party thereto [except that: []].
7. The Borrower:
 - (a) repeats the Representations that are deemed to be repeated in the Loan Agreement;
 - (b) confirms that no Default or Event of Default is continuing or would occur as a result of [Subsidiary] becoming a New Guarantor; and
 - (c) confirms that all the conditions precedent to the addition of a New Guarantor have been satisfied.
8. [Subsidiary] makes the representations set out in Clause 2 (*Representations and Warranties of the Guarantors*) of the Deed of Guarantee in respect of itself and on its own behalf other than [•].
9. [Subsidiary's] administrative details are as follows:

Address:

Fax.:

Telephone:

Contact Name:

10. [**Process Agent*** [Subsidiary] agrees that the documents which [start]?? any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it at [address of Subsidiary's place of business in England] or at any address in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985] / [on name of process agent in England at address of process agent or, if different, its registered office. If [Subsidiary] ceases to have a place of business in Great Britain]/[the appointment of the person mentioned above ceases to be effective], [Subsidiary] shall immediately appoint another person in England to accept service of process on its behalf in England. If it fails to do so (and such failure continues for a period of not less than fourteen days), the Agent shall be entitled to appoint such a person by notice. Nothing contained herein shall restrict the right to serve process in any other manner allowed by law. This applies to Proceedings in England and to Proceedings elsewhere.]
11. This Deed of Accession shall be governed by English law.

Executed as a deed by

UBS (Luxembourg) S.A.
and signed and delivered as a deed by

..... and

.....on its behalf in the presence of:

Witness:

Signature:

Name:

Address:

Executed as a deed by

[*Subsidiary*]

and signed and delivered as a deed
on its behalf in the presence of:

Witness:

Signature:

Name:

Address:

* This clause is required only if the New Guarantor is not incorporated in England or Wales.

QuickLinks

Exhibit 4.2
Schedule Form of Guarantor Deed of Accession

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Exhibit 4.3

Moscow
01.01.2003

JSC "Tetra Pak AO",

Moscow, hereinafter referred to as the "Seller", represented by N.I. Timoshenko acting in accordance with the Power of Attorney, on one part, and

PJSC "Lianozovo Dairy",

Hereinafter referred to as the "Buyer", represented by Deputy Executive Director Usikova L.S. acting in accordance with the Power of Attorney have concluded the present contract on the following:

PART 1

1.1. SUBJECT OF THE CONTRACT

The Seller sells and the Buyer buys packaging material and also attendant accessories in accordance with specifications (annex No. 1 to the present contract). The deliveries are being fulfilled according to the preliminary orders placed by the Buyer in accordance with the Annex 2.

1.2. PRICES

1.2.1 The approximate price of the Contract is USD 40 000 000 (forty millions), including the VAT 20% USD 6 666 666,67 (six millions six hundred sixty six, 67). The exact sum of the Contract will be determined according to the cost of the actually delivered packing material.

The cost of the packing material, the sum of the insurance and transportation is to be established in USD, and indicated separately in the accounts for the actual deliveries of the packing material, payable by the Buyer.

1.2.2 Prices for the packaging material include pallets delivered to the Buyer and the cost of corresponding quantity of longitudinal strips (for the material Tetra Brik Aseptic).

1.3. QUANTITY AND PAYMENT CONTITIONS

1.3.1 Payment should be made in Roubles to the Seller's account in accordance with the exchange rate of the Central Bank of RF on the date of transferring the amount from the Buyer's account after the delivery of packaging material to the Buyer's warehouse. The factura-invoice should be paid within 61 calendar days from the date of issue of the factura-invoice.

1.3.2 The date of issue of the factura-invoice can not be prior to the date of dispatch.

1.3.3 In case the Buyer has failed to make a payment in accordance with the payment conditions the Seller has the right to charge the penalty on overdue amount of 20% yearly for every overdue day.

1.3.4 Supplier shall be entitled to deliver up to 10% above or below the quantity of packaging material ordered by the Buyer, the final balance will be adjusted accordingly to the delivered quantity.

1.4. TERMS OF DELIVERY

1.4.1 The goods are to be delivered Customer warehouse transport of the Supplier due to the Buyer if not otherwise specified in the order.

Delivery (within European part of R F territory is to be effected by fully-loaded trucks according to the order agreed by the parties, the only exception being the last shipment.

1.4.2 Delivery is to be effected within 6 weeks after the Seller receives the official order and if the design(s), duly approved by the Buyers, is available for the Seller.

1.4.3 The Buyer shall undertake costs of storage of the unpaid goods at the Seller's warehouse in case of delay in shipment of goods, if the delay occurred due to the reasons depending on the Buyer and exceeded 10 calendar days from the established shipment date.

1.4.4 The Seller shall give shipment advice to the Buyer once the truck has left the factory and supply the Buyer with all the documents and invoices needed for each shipment by fax within 24 hours.

1.4.5 The production facilities are to be chosen in mutual agreement with the Buyer. In any case of changes the Buyer has to be informed beforehand.

1.4.6 The Buyer shall compensate the demurrage cost after 24 hours from. The stand demurrage equals to:

— 150.00 USD (excl.VAT) per day for the stay of one not unloaded truck arrived from Tetra Pak factories to the specified in transport documents address not later than 12:00am on the agreed arrival date.

In case if the truck arrives to the specified in transport documents address earlier the agreed arrival date the demurrage cost should not be charged for the period from the arrival time up to 12:00am on the agreed arrival date.

In case if the truck arrives to the specified in transport documents address later 12:00am on the agreed arrival date the demurrage cost should calculated after 24 hours from the time of arrival.

In case if the truck arrives to the specified in transport documents address later the agreed arrival date the demurrage cost should calculated after 48 hours from the actual time of arrival. Actual time of arrival of the truck (date, time) is to be stated by the Buyer's representative in transport documents .

The time of the truck arrival stated in transport documents is to be the basis for the demurrage cost calculation.

1.5. TRANSPORTATION RISKS

All the rises connected with the transportation of goods to the warehouse of the Buyer are born by the Seller.

The Seller is to reimburse to the Buyer all the losses caused by the damage of goods during transportation subject to the conditions of article 2.4."Acceptance of goods damaged during the transportation".

The Seller shall determine the form of reimbursement: reimbursement of losses by cash or in kind.

PART 2. GENERAL CONDITIONS OF SALES

2.1. REQUIREMENTS TO PAYMENT INVOICES

The Buyer shall specify the following information when filling up the bank papers to effect the prepayment or the payment according to the invoice.

2.1.1 Invoice settlement

— Date and number of the Invoice

— INT

2.1.2. General Conditions

In case the prepayment or the payment shall be effected by the third party it is necessary to specify the name of the Buyer in addition to the items numerated above.

2.2. PACKING AND MARKING

The goods is to be shipped in packing suitable for long distance transportation.

Each reel is to be shrink-wrapped. Each pallet with the reels is to be shrink-wrapped as well. Marking shall be as follows:

Contract No P 31002

Consignee: _____

Address of destination: _____

2.3. STORAGE REQUIREMENTS

For Tetra Brik and Tetra Brik Aceptic packaging material:

Under normal circumstances, reels of packaging material are double-wrapped.

- Each reel is tightly shrink-wrapped.
- Each pallet is enclosed in a shrink-film.

Pallets can be stacked three on top of each other provided a rigid divider board is placed on top of the lower pallets.

Transportation pallets are irrevocable and their life is limited.

Temperature: Between 0° and +20°C is not detrimental but ensure that immediately prior to production the material is to be conditioned in the temperature of +20° +30°C. The ideal temperature for storage is +20°C.

Humidity: 30% to 70 % RH.

Actual storage temperatures and relative humidity in some cases deviate from recommendations. If so, it is advised that prolonged storage should be avoided through the use of efficient delivery schedule and by ensuring a strict rotation system, i.e. "first in–first out"

Whenever possible correct such deviations by means of adequate heating, cooling or humidity control equipment.

2.4. ACCEPTANCE OF THE GOODS

- 2.4.1 On delivery and acceptance of goods by the Buyer or Consignee the notes should be done by them in the shipment documents.
- 2.4.2 Final acceptance of the goods as to the quantity to be made by the Buyer at the site within 10 days from the date of the delivery.
- 2.4.3 In case the Buyer has any claims as per the quality of the packaging material supplied he has the right to submit them for the attention of the Seller within 12 (twelve) months from the delivery date of the packaging material provided that all the storage requirements given in Article 2.3 have been fully met. No claims are accepted if the above time is overdue.
- 2.4.4 In case of any claims the Buyer should prepare the claim according to the "Packaging Material Claim Routine".
- 2.4.5 If the claims as per the quality submitted by the Buyer and received by the Seller before 3 months expire from the date of the shipment, the claimed goods shall be compensated by the delivery of the packaging material equals to the amount of the claimed material. If the total quantity of the packaging material to be replaced is less than one prefabricated reel for Tetra Brik packaging material, the claimed goods shall be compensated when producing the next coming order of the Buyer.
- 2.4.6 If the claims are submitted by the Buyer and received by the Seller after 3 months but before 12 months expired from the delivery date, the way to compensate the claimed goods shall be specified additionally.

2.4.7 Acceptance of goods damaged during transportation

Shall the goods be damaged during the transportation, the Buyers shall at his own expense and risk:

- effect the acceptance of the damaged,
-

- inform the Seller of the damages in writing by fax (cable) immediately,
- take all the necessary steps to prevent the further damaged and loss of the goods and transport facilities,
- take picture of the damaged goods prior to unloading from the transportation facilities (picture should show the type of damage and the reason of the damage if possible),
- in case of truck delivery of damaged goods, make the note in the shipment documents of the revealed damages during the transportation, provide for the signature of the transportation company representative on the shipment documents containing the note of the damages. In case the transportation company representative denies to supply the shipment documents with the note of the damage, the Buyer makes the following note himself,
- in case of damaged goods carriage by rail, to sign with a carrier representative a carrier's statement describing the damage,
- provide for the signature of the transportation company representative on the shipment documents containing the note of the damages. In case the transportation company representative denies to supply the shipment documents with the note of the damage, the Buyer makes the following note himself,
- forward the originals of the above listed documents to the Seller through courier service within 72 hours from the moment of acceptance of goods.

The liability is to be determined by the Agreement of the parties.

2.5. INTANGIBLE PROPERTY AND TRADEMARKS

- 2.5.1 The Buyer recognizes the validity of the Seller owner's right of the patents, *know-how*, trade marks and of her certain intangible property relating to the packages, the opening devices, the Equipment, the method of forming and filling and closing packages in the Equipment.
- 2.5.2 Any use by the Buyer of the trademarks Tetra Pak and Tetra Brik or of other trademarks approved by the Seller or of the package itself as a trademark, should be deemed as use as the Seller's agent and not by the Buyer in their own right.
- 2.5.3 The Buyer releases the Seller of any obligations or responsibility for lawlessly placed order for packaging material in the face of the third persons.

In case of unauthorized use of the Seller's or Buyer's trademarks by one of the Parties the injured party parties may terminate this Contract, seek damages, compensation or any other remedies available under applicable laws.

2.6. FORCE MAJEURE

If the Seller or the Buyer are prevented to perform in whole or in part its obligations in accordance with this Contract or is unreasonably burdened by circumstances over which he has no control, including but not limited to Acts of God, civil war, mobilization, military conscription on a large scale, riots, insurrections and revolutions, sabotage, requisition, confiscation, nationalization, embargoes and expropriation, public decrees or any other prohibition acts of authorities, strikes, lockouts, natural cataclysms such as violent storms, earthquakes, lightning, fire, explosions, faults this shall suspend performance of the obligation without incurring any liability for compensation whatsoever.

The circumstances of force majeure should be proved by the conclusion of the Chamber of Commerce of the Russian Federation.

2.7. ARBITRATION

All disputes, differences or demands which may arise out of or in connection with the present Contract, and connecting its fulfilment transgression, stoppage or nonvalidity, are to be settled in the International commercial Arbitration court at the Chamber of Commerce and Industry of RF in Moscow in accordance with it's Rules. Arbitration hearings is to be held in Moscow.

During the settlement of all disputes the parties must guided by the Material Rules of RF.

The award of the Arbitration Court is final and binding upon both parties.

2.8. OTHER CONDITIONS

- 2.8.1 The contract comes into effect from the date of signing.
- 2.8.2 The validity of the Contract is one year.
- 2.8.3 After signing the contract all the preliminary agreements, discussions and correspondence between the parties concerning this contract are to be considered in valid from the date of signing.
- 2.8.4 All the appendices and addenda to the present contract make the integral part.
- 2.8.5 All the amendments and Annexes to the present contract are valid only on condition of being made in written form and signed by both parties.
- 2.8.6 Neither party has the right to assign its obligations and rights under the present contract to any third party without written consent of the other party.

However the Seller can assign its rights and obligations regarding this Contract to another company within Tetra Laval Group. The Buyer can assign its rights and obligations regarding this Contract to another company within Wimm Bill Dann group of companies in the European part of the Russian Federation.

In both cases the above should take place against written consent of the parties.

- 2.8.7 If the Buyer initiates the termination of this Contract the Seller must stop immediately further production of the goods for the deliveries as per this contract in case of a written request from the Buyer concerning termination of this contract. Should there be any orders in production the Seller should immediately stop further production and the Buyer is obliged to pay the costs of order cancellation.

2.9. LEGAL ADDRESSES OF THE PARTIES

Seller:

JSC "Tetra Pak AO"
2-nd Spasonalivkovsky per.,3, 117049, Moscow,
INT 7706017070
acc. 40702810900001000943 in ING Bank Evrazia
Moscow corr. acc. 3010181050000000222
BIK 044525222
Address of the Bank:
123022 Moscow, Krasnaya Presnia, 31

Buyer:

OA "Lianozovo Dairy" 108, Dmitrovskoesh.,
127591, Moscow, Russia
Account:
Saving Bank of the Russia, Moscow, 6
Boljshaja Andronyevskaya Street,
109544, Moscow, Russia
Current account No 40702810038000130059
INN 7713085659
Code [Russian characters] 81200, 72200, 71500, 18151, 84100
Code [Russian characters] 05268977
K/c 30101810400000000225
BIK 044525225

The Contract is made in English and Russian languages. In case of differences between English and Russian texts the Russian text shall always prevail over the English text.

Annex 1: Specification
Annex 2: LQS and Quantity Discounts for packaging material
Annex 3: Packaging material claim routine customer

FOR AND ON BEHALF OF THE SELLER

Date: 1 January 2003

By: /s/ N. TIMOSHENKO

N. Timoshenko

FOR AND ON BEHALF OF THE BUYER

Date: 1 January 2003

By: /s/ L. USIKOVA

L. Usikova

**Annex 1
 to the Contract P21021
 January 1, 2003**

SPECIFICIATION

No	Type of packaging material	Package volume, ml	Price FCA TP factory, USD/1000 packs	Printing method
Production place: Tetra Pak Kuban				
1	TBA/m 6200-810	1000	72.03	Flexo
2	TBA/m 6200-705	500 Slim	76.89	Flexo
3	TBA/m 6200-460	200	36.29	Flexo
4	TB/m 6100-810	1000	44.40	Flexo
5	TB/m 6100-700	500	27.60	Flexo
6	TB/m 6042-700	500	42.00	Flexoprocess
7	TB/m 6042-810	1000	62.00	Flexoprocess
Production place: Tetra Pak Kiev				
1	TBA/j 6296-813	1000S	119.44	Flexoprocess
2	TBA/m 6295-813	1000S	106.20	Flexoprocess
3	TBA/m 6295-460	200	39.44	Flexoprocess
Production place: Tetra Pak Lund				
1	TBA/m 6295-705	500S	83.97	Flexoprocess
2	TBA/j 6296-705	500S	94.23	Flexoprocess
Production place: Tetra Pak Merdijk				
1	TPA/m 6678-561	250	62.15	Offset
2	TPA/lk 6678-813	1000S	126.45	Offset

	Type of straws	Quality	Price FCA Furulund (Sweden) VAT excl (Duties include, transportation and insurance excluded)
Production place: Tetra Pak Kiev			
Production place: Tubex AB			
1	Stright straws, 100 mm long, 4 mm diam.	1000	2.50
2	U Straws 200 Base, 145 mm long, 4 mm diam.	1000	4.50

**Annex No. 2
to contract No. P31002**

I. Low quantity Surcharges and Quantity Discounts for Tetra Brik, Tetra Brik Aseptik packaging material

1. Low Quantity Surcharges Flexoline/Flexoprocess

Order (1000 packs)	Surcharge (USD)
999–500	0,0
499–250	7,0
249–100	19,0

2. Big Quantity Discount

Order (1000 packs)	Discount (%)
1000–1999	0.0
2000–2999	1.0
3000–3999	2.0
4000–4999	2.5
> 5000	3.0

The term "Single order" should be interpreted as Buyer's application for production of a certain quantity of packaging material with one approved design.

The term "Co-print order" should be interpreted as a set of Single orders with designs of similar colors in quantity multiple to:

— 4– for Tetra Pak factories in Kiev, Timashevsk and Moerdijk for packaging material

TBA/m TBA/j 1000mlBase 1000mlSlim,

TPA/j 330ml,

TB/m 1000ml 500ml

— 6– for Tetra Pak factories in Kiev and Timashevsk for packaging material

TBA/m TBA/j 200mlBase.

When placing "Single order" or "Co-print" order quantities stipulated in column "Order" a sum of USD stipulated in column "Surcharge" should be added to the price or reduce the price by the relevant percent stipulated in column "Discounts" in case of surcharges and discounts application accordingly.

Low Quantity Surcharges are based on ordered quantity of "Co-print order" or "Single order".

II. Low Quantity Surcharges for Tetra Rex packaging material

1. Low Quantity Surcharges

Order (1000 packs)	Surcharge (USD)
249–100	5.0

Low Quantity Surcharges are based on ordered quantity. When ordering quantities stipulated in column "Order" a sum of USD stipulated in column "Surcharge" should be added to the price.

2. Color Surcharges for Tetra Rex packaging material Printing Method- flexo.

All prices are based on 2 colors.

Color Surcharge

Order (1000 packs)	Surcharge (%)
5	+3 %
4	+2 %
3	+1 %

When ordering the packaging material with more then 2 colors the "Color Surcharge" should be added to the standard price including possible LQS or individual order discount.

THE SELLER

By: /s/ N. TIMOSHENKO

N. Timoshenko

THE BUYER

By: /s/ L. USIKOVA

L. Usikova

**Annex No. 3
to contract No. P31002**

Packaging Material Claim Routine Customer

- 1.1. In case the buyer has any claims a per the quality of packaging material supplied that cannot be used in the filling machine, the Buyer should prepare a Claim Routine by the following way:
- 1.2. — Two copies should be sent into Technical service.
 - One copy to be retained by the Buyer/
 - One copy to be attached to the faulty packaging material to show that it is placed on hold.
- 1.3. The material should then be moved to a separate location, placed on hold and stored according to the recommendations stated in the sales contract.
- 1.4. Technical Service will contact the Buyer to confirm receipt of the claim. This should be done in the fastest possible way.
- 1.5. Depending on the amount of packaging material claimed, the size of the order and the Buyer's situation two different actions could be carried out:
 - A. Immediate action
 - B. Action at next site visit
- 1.6. An agreement is made between Technical Service and the Buyer that in case A (article 1.5) Service Engineer is sent to site at a mutually convenient time, in case B (article 1.5) the Claim will be investigated at the next site visit within two months.

The service engineer attends site and investigates the possibility to use the packaging material in the filling machine. If is possible after only minor adjustments, a report is to be completed by the engineer detailing this and any other changes made to the filling machine.

— copy to be returned to Technical Service.

If the service engineer investigated that the packaging material cannot be used in the filling machine, then Technical service should complete Claim Report and samples of the packaging material obtained (at least 2 meters or 20 blanks).

Within four weeks an agreement with the Buyer should have been finalized.

THE SELLER

By: /s/ N. TIMOSHENKO

N. Timoshenko

THE BUYER

By: /s/ L. USIKOVA

L. Usikova

QuickLinks

Exhibit 4.3

JSC "Tetra Pak AO",

PJSC "Lianozovo Dairy",

PART 1

PART 2. GENERAL CONDITIONS OF SALES

Annex 1 to the Contract P21021 January 1, 2003

SPECIFICIATION

Annex No. 2 to contract No. P31002

Annex No. 3 to contract No. P31002

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Exhibit 4.4

Contract No. P31009

Moscow
01.01.2003

JSC "Tetra Pak AO",

Moscow, hereinafter referred to as the "Seller", represented by N.I. Timoshenko acting in accordance with the Power of Attorney, on one part, and

ZAO "Wimm-Bill-Dann Purchaser",

Hereinafter referred to as the "Buyer", represented by Executive Director Medvedev V.V., acting in accordance with the Regulation Rules have concluded the present contract on the following:

PART 1

1.1. SUBJECT OF THE CONTRACT

The Seller sells and the Buyer buys packaging material and also attendant accessories in accordance with specifications (annex No. 1 to the present contract). The deliveries are being fulfilled according to the preliminary orders placed by the Buyer in accordance with the Annex 2.

1.2. PRICES

- 1.2.1 Price for the packaging material which is stipulated in the Specification (Annex No. 1 to the present Contract), amount of insurance and transportation are fixed by the Seller in US dollars excluding VAT and included separately into the invoices to be paid by the Buyer.
- 1.2.2 Prices for the packaging material include pallets delivered to the Buyer and the cost of corresponding quantity of longitudinal strips (for the material Tetra Brik Aseptic)

1.3. QUANTITY AND PAYMENT CONTITIONS

- 1.3.1 Payment should be made in Roubles to the Seller's account in accordance with the exchange rate of the Central Bank of RF on the date of transferring the amount from the Buyer's account after the delivery of packaging material to the Buyer's warehouse. The factura-invoice should be paid within 61 calendar days from the date of issue of the factura-invoice.
 - 1.3.2 The date of issue of the factura-invoice can not be prior to the date of dispatch.
 - 1.3.3 In case the Buyer has failed to make a payment in accordance with the payment conditions the Seller has the right to charge the penalty on overdue amount of 20% yearly for every overdue day.
 - 1.3.4 Supplier shall be entitled to deliver up to 10% above or below the quantity of packaging material ordered by the Buyer, the final balance will be adjusted accordingly to the delivered quantity.
-

1.4. TERMS OF DELIVERY

1.4.1 The goods are to be delivered to the Customer's warehouse (Moscow and Moscow region) by the transport of the Supplier due to the Buyer if not otherwise specified in the order.

Delivery (within European part of R F territory is to be effected by fully-loaded trucks according to the order agreed by the parties, the only exception being the last shipment

1.4.2 Delivery is to be effected within 6 weeks after the Seller receives the official order and if the design(s), duly approved by the Buyers, is available for the Seller.

1.4.3 In case of delivery delay through the Seller's fault the Buyer has the right to charge the penalty on delayed delivery amount of 20% yearly for every overdue day.

1.4.4 The Buyer shall undertake costs of storage of the unpaid goods at the Seller's warehouse in case of delay in shipment of goods, if the delay occurred due to the reasons depending on the Buyer and exceeded 10 calendar days from the established shipment date.

1.4.5 The Seller shall give shipment advice to the Buyer one e the truck has left the factory and supply the Buyer with all the documents and invoices needed for each shipment by fax within 24 hours.

1.4.6 The production facilities are to be chosen in mutual agreement with the Buyer. In any case of changes the Buyer has to be informed beforehand.

1.4.7 The Buyer shall compensate the demurrage cost after 24 hours from. The stand demurrage equals to:

— 150.00 USD (excl.VAT) per day for the stay of one not unloaded truck arrived from Tetra Pak factories to the specified in transport documents address not later than 12:00am on the agreed arrival date.

In case if the truck arrives to the specified in transport documents address earlier the agreed arrival date the demurrage cost should not be charged for the period from the arrival time up to 12:00am on the agreed arrival date.

In case if the truck arrives to the specified in transport documents address later 12:00am on the agreed arrival date the demurrage cost should calculated after 24 hours from the time of arrival.

In case if the truck arrives to the specified in transport documents address later the agreed arrival date the demurrage cost should calculated after 48 hours from the actual time of arrival. Actual time of arrival of the truck (date, time) is to be stated by the Buyer's representative in transport documents.

The time of the truck arrival stated in transport documents is to be the basis for the demurrage cost calculation.

1.5. TRANSPORTATION RISCS

All the rises connected with the transportation of goods to the warehouse of the Buyer are born by the Seller.

The Seller is to reimburse to the Buyer all the losses caused by the damage of goods during transportation subject to the conditions of article 2.4."Acceptance of goods damaged during the transportation".

The Seller shall The form of reimbursement: reimbursement of losses by cash or in kind shall be determined on the Parties' concordance.

PART 2. General conditions of sales

2.1. REQUIREMENTS TO PAYMENT INVOICES

The Buyer shall specify the following information when filling up the bank papers to effect the prepayment or the payment according to the invoice.

2.1.1 Invoice settlement

— Date and number of the Invoice

— INT

2.1.2. General Conditions

In case the prepayment or the payment shall be effected by the third party it is necessary to specify the name of the Buyer in addition to the items numerated above.

2.2. PACKING AND MARKING

The goods is to be shipped in packing suitable for Ion g distance transportation.

Each reel is to be shrink-wrapped. Each pallet with the reels is to be shrink-wrapped as well. Marking shall be as follows:

Contract No P 31009

Consignee: _____

Address of destination: _____

2.3. STORAGE REQUIREMENTS

For Tetra Brik and Tetra Brik Aceptic packaging material:

Under normal circumstances, reels of packaging material are double-wrapped.

- Each reel is tightly shrink-wrapped.
- Each pallet is enclosed in a shrink-film.

Pallets can be stacked three on top of each other provided a rigid divider board is placed on top of the lower pallets.

Transportation pallets are irrevocable and their life is limited.

Temperature: Between 0° and +20°C is not detrimental but ensure that immediately prior to production the material is to be conditioned in the temperature of +20° +30°C. The ideal temperature for storage is +20°C.

Humidity: 30% to 70% RH.

Actual storage temperatures and relative humidity in some cases deviate from recommendations. If so, it is advised that prolonged storage should be avoided through the use of efficient delivery schedule and by ensuring a strict rotation system, i.e. "first in—first out"

Whenever possible correct such deviations by means of adequate heating, cooling or humidity control equipment.

2.4. ACCEPTANCE OF THE GOODS

- 2.4.1 On delivery and acceptance of goods by the Buyer or Consignee the notes should be done by them in the shipment documents.
- 2.4.2 Final acceptance of the goods as to the quantity to be made by the Buyer at the site within 10 days from the date of the delivery
- 2.4.3 In case the Buyer has any claims as per the quality of the packaging material supplied he has the right to submit them for the attention of the Seller within 12 (twelve) months from the delivery date of the packaging material provided that all the storage requirements given in Article 2.3 have been fully met. No claims are accepted if the above time is overdue.
- 2.4.4 In case of any claims the Buyer should prepare the claim according to the "Packaging Material Claim Routine".
- 2.4.5 If the claims as per the quality submitted by the Buyer and received by the Seller before 3 months expire from the date of the shipment, the claimed goods shall be compensated by the delivery of the packaging material equals to the amount of the claimed material. If the total quantity of the packaging material to be replaced is less than one prefabricated reel for Tetra Brik packaging material, the claimed goods shall be compensated when producing the next coming order of the Buyer.
- 2.4.6 If the claims are submitted by the Buyer and received by the Seller after 3 months but before 12 months expired from the delivery date, the way to compensate the claimed goods shall be specified additionally.

2.4.7 Acceptance of goods damaged during transportation

Shall the goods be damaged during the transportation, the Buyers shall at his own expense and risk:

- effect the acceptance of the damaged,

- inform the Seller of the damages in writing by fax (cable) immediately,
- take all the necessary steps to prevent the further damaged and loss of the goods and transport facilities,
- take picture of the damaged goods prior to unloading from the transportation facilities (picture should show the type of damage and the reason of the damage if possible),
- in case of truck delivery of damaged goods, make the note in the shipment documents of the revealed damages during the transportation, provide for the signature of the transportation company representative on the shipment documents containing the note of the damages. In case the transportation company representative denies to supply the shipment documents with the note of the damage, the Buyer makes the following note himself.
- in case of damaged goods carriage by rail, to sign with a carrier representative a carrier's statement describing the damage.
- forward the originals of the above listed documents to the Seller through courier service within 72 hours from the moment of acceptance of goods.

The liability is to be determined by the Agreement of the parties.

2.5. INTANGIBLE PROPERTY AND TRADEMARKS

- 2.5.1 The Buyer releases the Seller of any obligations or responsibility for lawlessly placed order for packaging material in the face of the third persons.
- 2.5.2 In case of unauthorized use of the Seller's or Buyer's trademarks by one of the Parties the injured party parties may terminate this Contract, seek damages, compensation or any other remedies available under applicable laws.

2.6. FORCE MAJEURE

If the Seller or the Buyer are prevented to perform in whole or in part its obligations in accordance with this Contract or is unreasonably burdened by circumstances over which he has no control, including but not limited to Acts of God, civil war, mobilization, military conscription on a large scale, riots, insurrections and revolutions, sabotage, requisition, confiscation, nationalization, embargoes and expropriation, public decrees or any other prohibition acts of authorities, strikes, lockouts, natural cataclysms such as violent storms, earthquakes, lightning, fire, explosions, faults this shall suspend performance of the obligation without incurring any liability for compensation whatsoever.

The circumstances of force majeure should be proved by the conclusion of the Chamber of Commerce of the Russian Federation.

2.7. ARBITRATION

All disputes, differences or demands which may arise out of or in connection with the present Contract, and connecting its fulfilment transgression, stoppage or nonvalidity, are to be settled in the International commercial Arbitration court at the Chamber of Commerce and Industry of RF in Moscow in accordance with it's Rules.

Arbitration hearings is to be held in Moscow.

During the settlement of all disputes the parties must guided by the Material Rules of RF.

The award of the Arbitration Court is final and binding upon both parties.

2.8. OTHER CONDITIONS

- 2.8.1 The contract comes into effect from the date of signing.
- 2.8.2 The validity of the Contract is one year.
- 2.8.3 After signing the contract all the preliminary agreements, discussions and correspondence between the parties concerning this contract are to be considered in valid from the date of signing.
- 2.8.4 All the appendices and addenda to the present contract make the integral part.
- 2.8.5 All the amendments and Annexes to the present contract are valid only on condition of being made in written form and signed by both parties
- 2.8.6 Neither party has the right to assign its obligations and rights under the present contract to any third party without written consent of the other party.

However the Seller can assign its rights and obligations regarding this Contract to another company within Tetra Laval Group. The Buyer can assign its rights and obligations regarding this Contract to another company within Wimm Bill Dann group of companies in the European part of the Russian Federation.

In both cases the above should take place against written consent of the parties

- 2.8.7 If the Buyer initiates the termination of this Contract the Seller must stop immediately further production of the goods for the deliveries as per this contract in case of a written request from the Buyer concerning termination of this contract. Should there be any orders in production the Seller should immediately stop further production and the Buyer is obliged to pay the costs of order cancellation.

2.9. LEGAL ADDRESSES OF THE PARTIES

Seller:

JSC "Tetra Pak AO"
2-nd Spasonalivkovsky per.,3, 117049, Moscow,
INT 7706017070
acc. 40702810900001000943 in ING Bank Evrazia Moscow
corr. acc. 30101810500000000222
BIK 044525222

Address of the Bank:
123022 Moscow, Krasnaya Presnia, 31

Buyer:

Address:
ZAO "Wimm-Bill-Dann Purchaser"
17, 2nd floor, 8/10 b.2, Brjusov per., 103009,
Moscow, Russia
INN 7110225026 code [Russian characters] 45877002
code [Russian characters] 71100
BIK 044583342
Account 40702810738000130168
Corr. Account 30101810600000000342
Moscow Bank "Akcionerno-Kommerchesky" of
SberBank of Russian Federation
10-2, Mejdunarodnaya str, 109544, Moscow,
Russia

The Contract is made in English and Russian languages. In case of differences between English and Russian texts the Russian text shall always prevail over the English text.

Annex 1: Specification
Annex 2: LQS and Quantity Discounts for packaging material
Annex 3: Packaging material claim routine customer

**Annex 1
 to the Contract P31009
 January 1, 2003**

SPECIFICATION

No	Type of packaging material	Package volume, ml	Price FCA TP factory, USD/1000 packs	Printing method
Production place: Tetra Pak Kiev				
1	TBA/j 6296-810	1000	100.71	Flexoprocess
2	TBA/j 6296-813	1000S	119.44	Flexoprocess
3	TBA/j 6296-460	200	44.00	Flexoprocess
Production place: Tetra Pak Kuban				
1	TBA/j 6296-810	1000	98.15	Flexo
Production place: Tetra Pak Muerdijk				
1	TPA/j metallized 6884-602	330	72.04	Offset Metallized
2	TPA/j metallized with Streamcap 6884-602	330	89.74	Offset Metallized
3	TBA/j metallized 7209-813	1000S	132.40	Offset Metallized
4	TBA/j metallized 7209-460	200	52.08	Offset Metallized
Production place: Tetra Pak Budaors				
1	TBA/j 6296-813	1000S	119.44	Flexoprocess
Production place: Tetra Pak Limburg				
1	TBA/j metallized 7209-813	1000S	132.40	Offset Metallized
Production place: Tetra Pak Rubjera				
1	TBA/j 6824-350	125S	33.00	Rotogravure
Production place: Tetra Pak Lund				
1	TBA/j 6296-705	500S	94.23	Flexoprocess
2	TBA/j 6296-350	125S	32.00	Flexoprocess
3	TBA/lk 6539-835	1500S	148.00	Flexoprocess

	Type of straws	Quantity	Price FCA Furulund (Sweden) VAT excl (Duties include, transportation and insurance excluded)
Production place: Tubex AB			
10	U straws, 150mm long, 4 mm diam for TBA 200B. Code: 8775-919-01	1000	4.50
11	T straws, 150mm long, 5/6 mm diam for TPA 330 Square T15056 Code: 8783-919-07 orange Code: 8783-919-05 green	1000	6.50
12	Straight straws, 100mm long, 4 mm diam	1000	2.50

**Annex No. 2
to contract No. P31009**

I. Low Quantity Surcharges and Quantity Discounts for Tetra Brik, Tetra Brik Aseptik packaging material

1. Low Quantity Surcharges Flexoline/Flexoprocess

Order (1000 packs)	Surcharge (USD)
999–500	0,0
499–250	7,0
249–100	19,0

2. Big Quantity Discount

Order (1000 packs)	Discount (%)
1000–1999	0.0
2000–2999	1.0
3000–3999	2.0
4000–4999	2.5
> 5000	3.0

The term "Single order" should be interpreted as Buyer's application for production of a certain quantity of packaging material with one approved design.

The term "Co-print order" should be interpreted as a set of Single orders with designs of similar colors in quantity multiple to:

— 4– for Tetra Pak factories in Kiev, Timashevsk and Moerdijk for packaging material

TBA/m TBA/j 1000mlBase 1000mlSlim,

TPA/j 330ml,

TB/m 1000ml 500ml

— 6– for Tetra Pak factories in Kiev and Timashevsk for packaging material

TBA/m TBA/j 200mlBase.

When placing "Single order" or "Co-print" order quantities stipulated in column "Order" a sum of USD stipulated in column "Surcharge" should be added to the price or reduce the price by the relevant percent stipulated in column "Discounts" in case of surcharges and discounts application accordingly.

Low Quantity Surcharges are based on ordered quantity of "Co-print order" or "Single order".

II. Low Quantity Surcharges for Tetra Rex packaging material

1. Low Quantity Surcharges

Order (1000 packs)	Surcharge (USD)
249–100	5.0

Low Quantity Surcharges are based on ordered quantity. When ordering quantities stipulated in column "Order" a sum of USD stipulated in column "Surcharge" should be added to the price.

2. Color Surcharges for Tetra Rex packaging material Printing Method- flexo.

All prices are based on 2 colors.

Color Surcharge

Order (1000 packs)	Surcharge (%)
5	+3 %
4	+2 %
3	+1 %

When ordering the packaging material with more then 2 colors the "Color Surcharge" should be added to the standard price including possible LQS or individual order discount.

THE SELLER

By: /s/ N. TIMOSHENKO

N. Timoshenko

THE BUYER

By: /s/ V. MEDVEDEV

V. Medvedev

**Annex No. 3
to contract No. P31009**

Packaging Material Claim Routine Customer

- 1.1. In case the buyer has any claims a per the quality of packaging material supplied that cannot be used in the filling machine, the Buyer should prepare a Claim Routine by the following way:
- 1.2. — Two copies should be sent into Technical service.
 - One copy to be retained by the Buyer/
 - One copy to be attached to the faulty packaging material to show that it is placed on hold.
- 1.3. The material should then be moved to a separate location, placed on hold and stored according to the recommendations stated in the sales contract.
- 1.4. Technical Service will contact the Buyer to confirm receipt of the claim. This should be done in the fastest possible way.
- 1.5. Depending on the amount of packaging material claimed, the size of the order and the Buyer's situation two different actions could be carried out:
 - A. Immediate action
 - B. Action at next site visit
- 1.6. An agreement is made between Technical Service and the Buyer that in case A (article 1.5) Service Engineer is sent to site at a mutually convenient time, in case B (article 1.5) the Claim will be investigated at the next site visit within two months.

The service engineer attends site and investigates the possibility to use the packaging material in the filling machine. If is possible after only minor adjustments, a report is to be completed by the engineer detailing this and any other changes made to the filling machine.

— copy to be returned to Technical Service.

If the service engineer investigated that the packaging material cannot be used in the filling machine, then Technical service should complete Claim Report and samples of the packaging material obtained (at least 2 meters or 20 blanks).

Within four weeks an agreement with the Buyer should have been finalized.

THE SELLER

By: /s/ N. TIMOSHENKO

N. Timoshenko

THE BUYER

By: /s/ V. MEDVEDEV

V. Medvedev

QuickLinks

Exhibit 4.4

JSC "Tetra Pak AO",

ZAO "Wimm-Bill-Dann Purchaser",

PART 1

PART 2. General conditions of sales

Annex 1 to the Contract P31009 January 1, 2003

SPECIFICATION

Annex No. 2 to contract No. P31009

Annex No. 3 to contract No. P31009

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Exhibit 4.5

Ministry of Natural Resources
Novgorod Oblast Department of Natural
Resources and Environmental Protection
Territorial Fund for Geological Information
REGISTERED
December 10, 2002

In the register as No 154

Head of the TFGI [signature]

SUBSOIL USE LICENSE

N V G
series

0 1 9 4 8
number

V E
license type

Issued to Rodniki Valdaya Limited Liability Company
(business entity receiving the license)

represented by executive director
(full name of person representing the business entity)
Igor Anatolievich Shutov

purpose and types of work extraction of underground drinking water
from exploitation wells No. 2537 and No. 2542
in the Khorinka plot

Location of the subsoil plot 1 km north of Okulovka
(name of population center,
Okulovka District, Novgorod Oblast
district, oblast, krai, republic)

A description of the boundaries of the subsoil plot, corner coordinates, copies of topographic plans,
sectional views, etc. are given in annexes No. 4 and No. 5
(annex numbers)

The right to use land plots has been received from
Administration of the Okulovka District: Decree No. 646 of October 1, 2002
(name of issuing body, decree number, date)
Agreement on Lease of Land Plot
No. 183, dated November 2, 2002

Copies of documents and a description of the boundaries of the land plot are given in
annex No. 4
(annex number, number of pages)

Status of the subsoil plot mining claim (within SPZ-1 region)
(geological or mining claim)

License term expires: 14 August 2027
(day, month, year)

[illegible stamp; dated 10 December 2002]

**Ministry of Natural Resources of the Russian Federation
Novgorod Oblast Department of Natural Resources and Environmental Protection**

**Novgorod Oblast Administration
Economic Committee**

**JOINT DECISION
to grant a subsoil use license**

December 4, 2002, No. 56

Veliky Novgorod

Having examined the application of Rodniki Valdaya Limited Liability Company, on the basis of article 10.4¹ of the Federal Law "On the Subsoil" and Certificate of Mineral Strike No. 3/2002, the **Novgorod Oblast Department of Natural Resources and Environmental Protection of the Russian Ministry of Natural Resources (MNR)** and the **Novgorod Oblast Economic Committee**

DECIDED:

To grant to Rodniki Valdaya Limited Liability Company **a license** to use the subsoil for the purpose of extracting underground drinking water for bottling and manufacture of food products and supplying water for technological needs in a volume of up to 500 m³/day from wells Nos. 2537 and 2542 in the Khorinka plot, Okulovka District, Novgorod Oblast, **valid until August 14, 2027.**

Acting Head,
Novgorod Oblast Department of Natural Resources and
Environmental Protection, Russian MNR

Representative of the Novgorod Oblast Economic Committee

_____ N. V. Kazakov

_____ A. A. Shalumev

Annex 3

**License Agreement
on the terms of subsoil use for the extraction
of up to 500 m³/day of underground drinking water
from exploitation wells No. 2537 and No. 2542**

1. SUBSOIL USER:

1.1. FULL NAME: Rodniki Valdaya Limited Liability Company

1.2. FOUNDATION DOCUMENTS: Charter of Rodniki Valdaya Limited Liability Company, approved by Minutes No. 19-08 of August 19, 2002. Main state registration number: 1025301587585; taxpayer identification number: 5311005427.

1.3. ADDRESS: d. 5, ul. Tsentralnaya, Okulovka, Novgorod Oblast, 174350; tel. (81657) 23977; fax (81657) 21577.

1.4. DIRECTOR: Executive Director Igor Anatolievich Shutov

2. BODIES GRANTING THE LICENSE AND ADMINISTERING AND MONITORING SUBSOIL USE

2.1. Novgorod Oblast Department of Natural Resources and Environmental Protection: d. ²²/₂₅, pr. Mira, Veliky Novgorod, 173025; tel. 615519, 55137.

2.2. Novgorod Oblast Administration, Economic Committee: 1, Sofiiskaya ploshchad, Veliky Novgorod, 173005; tel. 132-118, 132-541.

3. PURPOSES AND BASIS FOR GRANT OF SUBSOIL USE

3.1. USE OF THE SUBSOIL PLOT IS GRANTED FOR THE PURPOSE OF: extraction of underground drinking water for bottling and manufacture of food products and supplying Rodniki Valdaya LLC with water for technological needs.

3.2. BASIS:

- article 10.4¹ of the RF Law "On the Subsoil";
- Certificate of Mineral Strike No. 3/2002;
- Joint Decision of the Novgorod Oblast Administration of Natural Resources and Environmental Protection of the Russian MNR and the Novgorod Oblast Economic Committee, No. 56 of December 4, 2002.

3.3. THE LAND PLOT IS PROVIDED BY:

- the Okulovka District Administration, by Decree No. 646 of October 1, 2002, "On the Transfer of a Land Plot"; Agreement on Lease of Land Plot, No. 183 of October 2, 2002;

3.4. APPROVAL OF TERMS OF SUBSOIL USE:

- with the State Sanitary and Epidemiological Inspectorate (Gossanepidnadzor) Center in the Okulovka District, received November 28, 2002;
- with the water service of the Novgorod Oblast Department of Natural Resources and Environmental Protection of the Russian MNR, received November 29, 2002;
- a positive State Environmental Assessment of the project (feasibility study) for the construction of a mineral water bottling plant in the Okulovka District, Novgorod Oblast, dated January 30, 2002.

3.5. FEASIBILITY OF USE FOR THE STATED PURPOSES IS BASED ON:

- Report on Estimation of Underground Water Reserves in the Khorinka Plot, 1 km North of Okulovka, Okulovka District, Novgorod Oblast, as at August 14, 2002 (Novgrodinzhproekt Institute OAO);
 - minutes of the State Commission on Mineral Reserves of the RF MNR, No. 778 of November 22, 2002;
 - opinion of the Russian Research Center for Restorative Medicine and Balneology (RNCVMIK) on the composition and quality of drinking water from wells No. 2537 and No. 2542 in Okulovka, Novgorod Oblast, No. 14/548 of September 27, 2002;
-

- water sample records of the Gossanepidnadzor Center in the Novgorod Oblast, Nos. 515/516, 517/518, and 570/571 dated August 23, 2002; No. 497/498 dated August 2, 2002; No. 506/507 dated August 15, 2002; and No. 354 dated August 12, 2002;
- water sample records of the Gossanepidnadzor Center in the Okulovka District, No. 7 dated February 1, 2002; No. 22 dated August 27, 2001; Nos. 173 and 174 dated August 8, 2002; and Nos. 175 and 176 dated August 14, 2002.

4. DESCRIPTION OF SUBSOIL PLOT

4.1. NAME: Khorinka plot (wells No. 2537 and No. 2542).

4.2. LOCATION: 1 km north of Okulovka, Okulovka District, Novgorod Oblast, in the territory of the water bottling plant;

4.3. SPATIAL BOUNDARIES: preliminarily designated as strict sanitary protection zones (SPZ-1 region) of 60 × 60 for each well on the land map, leased, 1:2000 scale.

Maximum depths:	well No. 2537:	133.0 m;
	well No. 2542:	132.55 m;
Coordinates:	well No. 2537:	33° 18' 05" E, 58° 26' 05" N
	well No. 2542:	33° 18' 00" E, 58° 26' 00" N.

4.4. STATUS OF PLOT: mining claim (in preliminary boundaries).

4.5. EXTENT OF STUDY AND STRUCTURE OF PLOT:

The extent of study of the territory is based on the materials of a 1:200,000 scale geological and hydrological survey (1958-1959) and a 1:50,000 scale comprehensive hydrogeological survey (1961-1965), and on materials from an estimation of underground water reserves in the Khorinka plot, in accordance with subsoil use licenses NVG 01635 VP and NVG 01894 VP, conducted in 1999-2002 by Novgorodinzhprouekt Institute OJSC on the instructions of Seven Streams Corporation CJSC and Tsaritsino Dairy Plant OJSC.

As a result of the work, 4 wells were drilled. In 1999 well No. 2537(p) was drilled to a depth of 186.5 m as an exploration well; this opened the Plavsk and Yeletsk strata of the Snezhsky-Plavsk aquifer system at depth ranges of 70.3-72.8 m and 121.0-128.8 m, respectively, and the upper part of the Snezhsky-Stipinaysky aquifer in Frasnian (Upper Devonian) sediments at a depth range of 176.0-186.5 m. In 2000-2001 well No. 2541 was drilled 240 m west of the exploration well to a depth of 76.8 m, opening the Plavsk strata at a depth range of 66.0-75.0 m, from which water was unfit for drinking purposes due to its iron (3.9 mg/dm³) and ammonia content (12.7 mg/dm³); well No. 2542 was drilled nearby to a depth of 132.55 m. In well No. 2542 tests were conducted in the Yeletsk strata at a depth range of 116-119.5 m and 125.5-131.5 m; when pumped the well yielded 64 m³/day with a 104.4 m water-level decline. In 2002 a new well, No. 2537, was drilled alongside exploration well No. 2537(p) to a depth of 133 m, opening the Yeletsk strata at a depth range of 121.0-132.6 mm [sic]. Under experimental exploitation pumping, the well yielded 466 m³/day with a 48 m water-level decline. Two wells, No. 2537 and No. 2542, were selected as exploitation wells.

Semi-permeable rocks of the Yeletsk strata are represented by sand and sandstone lying under a mass of clays with interstratified subordinate bands of sand and sandstone of the Ledebyan strata, Dankov superstrata (Famennian stage of the Upper Devonian). Quaternary sediments have a capacity of 48 m and 46 m, respectively; by origin these are lacustrine-glacial loam and clay sands and glacial boulder loam.

Exploitation reserves were estimated on the basis of experimental filtration results. At well No. 2542 experimental pumping was carried out with two reductions over a total of 25 days. At well No. 2537 experimental pumping was carried out for 12 days and experimental exploitation pumping for 20 days.

4.6. AQUIFERS TO BE EXPLOITED: the Yeletsk strata of the Snezhsk-Plavsk aquifer system (Upper Devonian) is opened at a depth range of: 121.0-130.0 m by well No. 2537; and 116.5-119.5 and 125.5-131.5 m by well No. 2542. Its index number in the State Water Cadastre (GVK) system is 258.

4.7. UNDERGROUND WATER RESERVES: Balance exploitation reserves of underground natural mineral table water for the Yeletsk aquifer were approved by the State Commission on Mineral Reserves of the RF MNR (minutes No. 778 of November 22, 2002) under category C1 for 5-year experimental industrial exploitation at a rate of 466 m³/day for well No. 2537 and 34 m³/day for well No. 2537.

4.7. QUALITY OF UNDERGROUND WATER AND AREA OF USE:

In accordance with RNCVMIK opinion No. 14/548 of September 27, 2002, underground water from wells No. 2542 and 2537 by chemical composition and overall level of mineralization (from 0.9 to 1.15 g/dm³) is considered weakly mineralized fresh water (solid residue of 600.0-700.0 mg/dm³) of hydrocarbonate sodium composition, alkaline (pH 7.2-7.5), with overall hardness less than 1.0 mol/dm³. Concentrations of toxic and regulated trace elements, including heavy metals and nitrogen group compounds, as well as strontium, selenium, and radionuclides, are below the established maximums for mineral drinking water. Organoleptic and microbiological indicators meet standards.

A distinctive feature of underground water is higher fluorine content (up to 2.7 mg/dm³), which should be noted on product labels.

In accordance with technical specification TU 10.04.06.0132-88, "Water, mineral natural table," and RF Health Ministry methodological guideline MU 2000/34, "Classification of mineral waters and curative muds for purposes of their certification," underground water from wells No. 2542 and No. 2637 are categorized as "mineral drinking natural table water," which may be used as a table beverage and as a basis for the preparation of nonalcoholic beverages.

5. DESCRIPTION OF SUBSOIL RESOURCES TO BE USED AND TERMS OF EXTRACTION OF UNDERGROUND WATER:

5.1. VOLUMES AND PURPOSES OF WATER EXTRACTION:

Water extraction (m ³ /day)	Total	Of which designated for:		
		domestic drinking water	auxiliary	bottling
1. Existing water extraction, of which transferred to other consumers	—	—	—	—
2. Stated water requirement, of which transferred to other consumers	500.0	43.13	18.0	438.87
3. Licensed water extraction, of which transferred to other consumers	500.0	43.0	18.0	439.0
4. By aquifer: Snezhsky-Plavsk aquifer system (D3 snz-pl) GVK-258	500.0	—	—	—

5.2. SUBSOIL RESOURCES AND AREA OF USE OF UNDERGROUND WATER IN ACCORDANCE WITH LICENSED WATER EXTRACTION AND AGREED CALCULATION OF WATER CONSUMPTION:

- subsoil user's production needs: 500 m³/day (182.5 thousand m³/year), including:
- for bottling and manufacture of food products: 439.0 m³/day (157.99 thousand m³/year);
- for auxiliary technological needs: 18.0 m³/day (20.02 thousand m³/year);
- domestic drinking water supply to factory (incidental use): 43.0 m³/day (4.40 thousand m³/year);

5.3. Water extraction mode: uninterrupted, but not exceeding the volume established by the license: 500.0 m³/day (182.5 thousand m³/year).

5.4. Water discharge: after use, water will flow into the plant's biological treatment facilities, and then into the Khorinka river.

5.5. PROVISION FOR THE ESTABLISHED EXTRACTION MODE: use of up to 500.0 m³ of water per day will be provided by the 2 (two) existing wells.

5.6. Monitoring of underground water in the water-intake impact zone: established in accordance with the specification of requirements (annex No.).

6. DATES AND OTHER MATERIAL TERMS

6.1. LICENSE EXPIRES: August 14, 2027.

6.2. SUBSOIL USE IS CONTEMPLATED IN TWO STAGES:

Stage I: experimental industrial exploitation of wells No. 2542 and 2537: through December 31, 2001.

The following work will be performed at Stage I:

6.2.1. Development and approval of subsoil use project (flow chart, planned sanitary protection zones, and planned mining claim) in accordance with established procedures, prior to the commencement of underground water extraction work.

6.2.2. Thorough, regular monitoring of the underground water exploitation mode (flow rates, dynamic levels, quality), including after more precise determination of fluorine content.

6.2.3. Consideration of the possibility and expediency of obtaining the entire stated water requirement (500 m³/day) from well No. 2537 alone, after refinement of the water-intake scheme.

6.2.4. On the basis of the results of experimental industrial development of the deposit, re-estimation of exploitation reserves and submission of a report for state examination: by March 1, 2007.

7. CHARGE FOR USE OF UNDERGROUND WATER FACILITIES

7.1. The charge for use of underground water facilities associated with water intake for supply to the population and domestic drinking, production, technological, and other needs shall be assessed in accordance with the Federal Law "On Amendments to the Federal Law "On the Charge for the Use of Water Facilities," No. 71-FZ of May 6, 1998, as amended by No. 111-FZ of August 7, 2001, and the RF Government Decree "On the Approval of Minimum and Maximum Charges for the Use of Water Facilities in River Basins, Lakes, Seas, and Economic Areas," No. 826 of November 28, 2001.

7.2. The subsoil user shall pay other taxes and levies established in accordance with RF legislation on taxes and levies.

8. HYDROGEOLOGICAL REPORTING AND INFORMATION:

8.1. TO THE REGIONAL DIVISION OF THE STATE MONITORING SERVICE (Geoinformatics and Monitoring, North-West Center, State Geological Environmental Monitoring Division, 24, ul. Odoevskogo, korp. 1, St. Petersburg, 199155) and the Novgorod Oblast Department of Natural Resources and Environmental Protection of the Russian MNR (d. 22/25, pr. Mira, Veliky Novgorod) shall be submitted:

8.1.1. ANNUALLY, by the 10th of January following the reporting year, a report on the use of underground water: state statistical reports on form 2-TP (water use).

8.1.2. IMMEDIATELY upon being established, information on nonconformity of underground water quality to the requirements of Sanitary Rules and Norms (SanPiN) 2.1.4.559-96 and concerning maximum allowable concentrations in excess of current standards.

8.2. TO THE TERRITORIAL FUND FOR GEOLOGICAL INFORMATION OF THE NOVGOROD OBLAST DEPARTMENT OF NATURAL RESOURCES shall be submitted, within one month after the end of work to re-estimate underground water reserves:

- a report on the re-estimation of underground water reserves;
- the registration certificate (*passport*) for the underground water deposit;
- informational map;
- record card of extent of study;
- record of the state examination of reserves;
- statement of sources of funding and expenses for geological prospecting work.

8.3. Within the established periods the subsoil user shall submit state statistical reports on forms No. 01-gr, No. 2-gr, and No. 7-gr to the Novgorod Oblast Department of Natural Resources.

9. TERMS OF WATER USE AND UNDERGROUND WATER PROTECTION

The SUBSOIL USER:

9.1. Shall carry out the extraction of underground water within the water extraction limits imposed by the license; develop a Sanitary Protection Zone 1 (SPZ-1) region and fulfill measures for a SPZ-1 region pursuant to SanPiN 2.1.4.1110-02; shall provide for sanitary protection in regions II and III within the limits of its land grant, as well as monitor compliance beyond its limits, reporting any violations to sanitary and ecological oversight authorities.

9.2. At the frequency prescribed by sanitary oversight authorities, but in any event at least once a year, shall take water samples from all water-intake wells (by captation) and provide for their analysis in

accordance with the requirements of SanPiN 2.1.4.559-96 or other newly introduced SanPiNs with respect to the list of indicators agreed with sanitary oversight authorities.

9.3. Is prohibited from using water for purposes other than those contemplated by this license and the opinion of the Republican Center of the Gossanepidnadzor, and from polluting underground water.

9.4. Shall keep systematic water extraction records, monitor the underground water level, and ensure the safekeeping of documentation throughout the entire license term.

9.5. Carry out its activity in accordance with the Subsoil Law, the Water Code, and other normative acts of the Russian Federation; obtain necessary authorizations and approvals; and fulfill the instructions of bodies of the Gossanepidnadzor, the Ministry of Natural Resources and its regional body for the Novgorod Oblast, and the regional division responsible for state monitoring of underground water.

10. OTHER TERMS OF SUBSOIL USE:

10.1. Extension, reregistration, amendment, and cancellation of this license shall be done in accordance with the RF Law "On the Subsoil" pursuant to applications from subsoil users or submissions from relevant authorities.

10.2. Upon the expiration of the license term, fulfillment of the license agreement, or other causes of termination of the right to use the subsoil, the subsoil user shall submit an application for cancellation of such right, and return the license—along with all annexes and geological documentation at the date of termination of work, as well as other materials confirming compliance with the terms of subsoil use—to the bodies that issued the license.

10.3. Liability for violation of the established procedure and terms of subsoil use is set out in articles 49 and 51 of the RF Law "On the Subsoil."

10.4. Disputes concerning subsoil use shall be resolved by state authorities, a court of law, or an arbitration court in accordance with their authority and the manner established by legislation pursuant to article 50 of the RF Law "On the Subsoil."

**Acting Head,
Novgorod Oblast Department of Natural
Resources and Environmental Protection,
Russian Ministry of Natural Resources**

**N. V. Kazakov
2002**

**Authorized representative of the
Oblast Administration,
Chairman of the Economic Committee**

**A. A. Shalumev
2002**

**Director of enterprise
receiving license**

**Executive Director,
Rodniki Valdaya LLC
[signature] I. A. Shutov
December 2, 2002**

QuickLinks

Exhibit 4.5

Annex 3

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Exhibit 8.1

	<u>Subsidiary</u>	<u>Country of Incorporation</u>
1.	Lianozovo Dairy Plant	Russian Federation
2.	Annino Dairy Plant	Russian Federation
3.	Tsaritsino Dairy Plant	Russian Federation
4.	Sanctuary Valdai	Russian Federation
5.	Vladivostok Dairy Plant	Russian Federation
6.	Ramenskiy Dairy Plant	Russian Federation
7.	Karasuk Dairy Plant	Russian Federation
8.	Ufa Dairy Plant	Russian Federation
9.	Siberian Dairy Plant	Russian Federation
10.	Nizhny Novgorod Dairy Plant	Russian Federation
11.	Rubtsovo Dairy Plant	Russian Federation
12.	Kiev Dairy Plant	Ukraine
13.	Timashevsk Dairy Plant	Russian Federation
14.	Moloko Veidelevki	Russian Federation
15.	Siberian Cheese	Russian Federation
16.	Novokuibyshevsk Milk	Russian Federation
17.	Trade Company Wimm-Bill-Dann	Russian Federation
18.	Rodnik	Russian Federation
19.	Moscow Baby Food Plant	Russian Federation
20.	WBD Mineral Water	Russian Federation
21.	Roselectrocenter	Russian Federation
22.	Nectarin	Russian Federation
23.	Burynskiy Dry Milk Plant	Ukraine
24.	Tuymazinskiy Dairy Plant	Russian Federation
25.	Bishkek Dairy Plant	Kyrgyz Republic
26.	Fruit Rivers	Russian Federation
27.	Roska	Russian Federation
28.	Depsona	Russian Federation
29.	Gulkevichi Butter Plant	Russian Federation
30.	Kharkov Dairy Plant	Ukraine
31.	WBD Netherlands B.V.	Netherlands
32.	WBD Israel	Israel
33.	WBD Germany GmbH	Germany
34.	Wimm-Bill-Dann Cyprus Limited	Cyprus
35.	Wimm-Bill-Dann Trading Company	Netherlands
36.	Subsidiary Enterprise Wimm-Bill-Dann	Ukraine
37.	Wimm-Bill-Dann Preobritatel	Russian Federation
38.	Dari Valdai	Russian Federation
39.	Podmoskovnoye Moloko	Russian Federation
40.	Multifrukt	Russian Federation
41.	Wimm-Bill-Dann Agro	Russian Federation
42.	Wimm-Bill-Dann Vladivostok	Russian Federation
43.	Wimm-Bill-Dann Izhora	Russian Federation

44.	Wimm-Bill-Dann Kazan	Russian Federation
45.	Wimm-Bill-Dann Krasnoyarsk	Russian Federation
46.	Wimm-Bill-Dann Novosibirsk	Russian Federation
47.	Wimm-Bill-Dann Omsk	Russian Federation
48.	Wimm-Bill-Dann Rostov-on-Don	Russian Federation
49.	Donskoi Dairy Trade House Wimm-Bill-Dann	Russian Federation
50.	Krasnodar Dairy Trade House Wimm-Bill-Dann	Russian Federation
51.	Krasnoyarsk Dairy Trade House Wimm-Bill-Dann	Russian Federation
52.	Kupinskoye Moloko	Russian Federation
53.	Lianozovo Samara	Russian Federation
54.	Nevskiy Dairy Trade House	Russian Federation
55.	Novokuznetsk Dairy Trade House Wimm-Bill-Dann	Russian Federation
56.	Omsk Dairy Trade House Wimm-Bill-Dann	Russian Federation
57.	Ramensk Juices	Russian Federation
58.	Ramensk Milk	Russian Federation
59.	Semiruchye	Russian Federation
60.	Togliatti Dairy Trade House Wimm-Bill-Dann	Russian Federation
61.	Urals Dairy Trade House Wimm-Bill-Dann	Russian Federation
62.	Khabarovsk Dairy Trade House Wimm-Bill-Dann	Russian Federation
63.	Sibir Juices	Russian Federation
64.	Municipal Guard Agency	Russian Federation
65.	Wimm-Bill-Dann Central Asia	Kyrgyz Republic
66.	Wimm-Bill-Dann Central Asia—Almaty	Republic of Kazakhstan
67.	Wimm-Bill-Dann Central Asia—Shimkent	Republic of Kazakhstan
68.	Wimm-Bill-Dann Central Asia—Kordai	Republic of Kazakhstan
69.	Volga Juices	Russian Federation
70.	Darya	Ukraine
71.	Wimm-Bill-Dann Irkutsk	Russian Federation
72.	Wimm-Bill-Dann Ufa	Russian Federation
73.	Food Production	Russian Federation
74.	Fruktola	Russian Federation
75.	Vitafrukt	Russian Federation
76.	Lianozovo	Russian Federation
77.	Grand-B	Russian Federation
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Exhibit 10.1

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Wimm-Bill-Dann Foods OJSC (the "*Company*") hereby certifies, to such officer's knowledge, that:

- (i) the accompanying Annual Report on Form 20-F of the Company for the year ended December 31, 2002 (the "*Report*") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June , 2003

/s/ SERGEI A. PLASTININ

Sergei A. Plastinin
Chairman of the Management Board

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

QuickLinks

Certification of Chief Executive Officer

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Exhibit 10.2

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Wimm-Bill-Dann Foods OJSC (the "*Company*") hereby certifies, to such officer's knowledge, that:

- (i) the accompanying Annual Report on Form 20-F of the Company for the year ended December 31, 2002 (the "*Report*") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June , 2003

/s/ VLADIMIR V. PREOBRJENSKY

Vladimir V. Preobrajensky
Chief Financial Officer

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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Certification of Chief Financial Officer

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