Wimm-Bill-Dann Foods

Consolidated and Combined Financial Statements

Year ended December 31, 2003

with Report of Independent Auditors

Wimm-Bill-Dann Foods

Consolidated and Combined Financial Statements

Year ended December 31, 2003

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Report of Independent Auditors

The Board of Directors and Shareholders
Wimm-Bill-Dann Foods

We have audited the accompanying consolidated balance sheets of Wimm-Bill-Dann Foods, a Russian Open Joint Stock Company ("the Company"), as of December 31, 2003 and 2002, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the years 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 audits. The combined financial statements of the Company as of December 31, 2001 and for the year then ended were audited by other auditors who have ceased operations as a foreign associated firm of the Securities and Exchange Commission Practice Section of the American Institute of Certified Public Accountants. Those auditors expressed an unqualified opinion on those financial statements in their report dated April 15, 2002.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wimm-Bill-Dann Foods as of December 31, 2003 and 2002 and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles

March 1, 2004

WIMM-BILL-DANN FOODS

Consolidated Balance Sheets

(Amounts in thousands of U.S. dollars)

	December 31, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents (Note 6)	**$ 40,264**	$ 29,340
Trade receivables, net (Note 7)	**57,424**	60,146
Inventory, net (Note 8)	**88,243**	86,063
Taxes receivable	**92,624**	57,734
Advances paid	**19,690**	10,811
Net investment in direct financing leases (Note 9)	**1,551**	1,338
Deferred tax asset (Note 19)	**5,210**	1,850
Other current assets	**3,648**	5,810
Total current assets	**308,654**	253,092
Non-current assets:		
Property, plant and equipment, net (Note 11)	**393,769**	293,580
Intangible assets, net (Note 10)	**3,005**	2,736
Goodwill (Note 12)	**24,695**	19,885
Net investment in direct financing leases – long-term portion (Note 9)	**4,391**	4,381
Long-term investments (Note 13)	**2,931**	1,989
Deferred tax asset – long-term portion (Note 19)	**1,893**	–
Other non-current assets (Note 14)	**4,547**	2,812
Total non-current assets	**435,231**	325,383
Total assets	**$ 743,885**	$ 578,475

The accompanying notes are an integral part of these statements.

WIMM-BILL-DANN FOODS

Consolidated Balance Sheets (continued)

(Amounts in thousands of U.S. dollars, except share amounts)

	December 31, 2003	December 31, 2002
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	**$ 51,487**	$ 40,144
Advances received	**2,586**	3,905
Short-term loans (Note 16)	**493**	94,050
Long-term loans, current portion (Note 16)	**1,769**	2,483
Notes payable (Note 17)	**6,032**	16,096
Taxes payable	**9,272**	4,933
Accrued liabilities (Note 15)	**10,983**	8,346
Government grants – current portion (Note 20)	**2,194**	2,033
Other payables (Note 18)	**36,033**	25,770
Total current liabilities	**120,849**	197,760
Long-term liabilities:		
Long-term loans (Note 16)	**7,882**	4,546
Long-term notes (Note 17)	**200,926**	–
Other long-term payables (Note 18)	**49,020**	55,047
Government grants – long-term portion (Note 20)	**7,052**	8,568
Deferred taxes – long-term portion (Note 19)	**12,370**	8,121
Total long-term liabilities	**277,250**	76,282
Total liabilities	**398,099**	274,042
Commitments and contingencies (Note 30)		
Minority interest (Note 22)	**21,168**	21,549
Shareholders' equity (Note 21):		
Common stock: 44,000,000 shares authorized, issued and outstanding with a par value of 20 rubles at December 31, 2003 and 2002	**29,908**	29,908
Share premium account	**164,132**	164,132
Accumulated other comprehensive income:		
Currency translation adjustment	**20,581**	–
Retained earnings	**109,997**	88,844
Total shareholders' equity	**$ 324,618**	$ 282,884
Total liabilities and shareholders' equity	**$ 743,885**	$ 578,475

The accompanying notes are an integral part of these statements.

WIMM-BILL-DANN FOODS

Consolidated and Combined Statements of Income and Comprehensive Income

(Amounts in thousands of U.S. dollars, except share and per share data)

	2003	**2002**	**2001**
Sales (Note 28)	**$ 938,459**	$ 824,734	$ 674,616
Cost of sales (Note 23)	**(665,104)**	(579,707)	(492,990)
Gross profit	**273,355**	245,027	181,626
Selling and distribution expenses (Note 24)	**(140,746)**	(109,527)	(62,213)
General and administrative expenses (Note 25)	**(75,973)**	(62,955)	(54,461)
Other operating expenses	**(7,481)**	(6,497)	(4,498)
Operating income	**49,155**	66,048	60,454
Financial income and expenses, net (Note 26)	**(15,273)**	(14,131)	(10,581)
Income before provision for income taxes and minority interest	**33,882**	51,917	49,873
Provision for income taxes (Note 19)	**(10,717)**	(14,249)	(14,166)
Minority interest (Note 22)	**(2,012)**	(1,922)	(3,962)
Income from continuing operations	**$ 21,153**	$ 35,746	$ 31,745
Income from discontinued operations, net of income tax expense of $386 (Note 5)	–	–	103
Net income	**$ 21,153**	$ 35,746	$ 31,848
Other comprehensive income, net of tax			
Currency translation adjustment	**20,581**	–	–
Comprehensive income	**$ 41,734**	$ 35,746	$ 31,848
Earnings per share - basic and diluted:			
Income from continuing operations	**$ 0.48**	$ 0.83	$ 0.91
Income from discontinued operations	**$ –**	$ –	$ 0.00
Net income	**$ 0.48**	$ 0.83	$ 0.91
Income from currency translation adjustment	**$ 0.47**	$ –	$ –
Comprehensive income	**$ 0.95**	$ 0.83	$ 0.91
Weighted average number of shares outstanding, basic and diluted	**44,000,000**	43,063,014	34,888,000

The accompanying notes are an integral part of these statements.

WIMM-BILL-DANN FOODS

Consolidated and Combined Statements of Cash Flows

(Amounts in thousands of U.S. dollars)

	2003	2002	2001
Cash flows from operating activities:			
Income from continuing operations	**$ 21,153**	$ 35,746	$ 31,745
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest	**2,012**	1,922	3,962
Depreciation and amortisation	**30,780**	18,611	12,722
Currency remeasurement gain relating to bonds payable and long-term payables	**(8,245)**	(1,295)	(257)
Provision for obsolete inventory	**2,100**	1,154	182
Fianance lease expense	**–**	–	50
Provision for doubtful accounts	**8,230**	1,970	226
(Gain) loss on disposal of property, plant and equipment	**(358)**	606	341
Earned income on net investment in direct financing leases	**(483)**	(395)	(561)
Deferred tax (benefit) expense	**(4,149)**	38	2,173
Currency remeasurement loss relating to cash and cash equivalents	**1,244**	639	300
Non-cash rental received	**2,095**	1,606	1,621
Gain from sale of trading securities	**(1,903)**	–	–
Unrealised holding gain for trading securities	**–**	(742)	(318)
Write off of net investment in direct finance leases	**–**	162	288
Write off of trade receivables	**1,361**	1,262	–
Amortisation of bonds issue expenses	**613**	–	–
Changes in operating assets and liabilities:			
Decrease (increase) in inventories	**2,394**	5,194	(30,296)
Increase in trade accounts receivable	**(2,356)**	(34,893)	(14,107)
(Increase) decrease in advances paid	**(7,681)**	3,189	(5,434)
Increase in taxes receivable	**(30,723)**	(32,880)	(13,885)
Decrease (increase) in other current assets	**1,068**	2,782	(3,285)
Increase (decrease) in trade accounts payable	**6,363**	(13,279)	9,377
(Decrease) increase in advances received	**(1,565)**	1,390	(306)
Increase in taxes payable	**5,492**	1,028	5,356
Increase (decrease) in accrued liabilities	**1,898**	(1,081)	1,326
Increase in other current payables	**2,071**	619	5,216
(Decrease) increase in other long-term payables	**(227)**	(216)	6,155
Net cash provided by (used in) operating activities associated with continuing operations	**31,184**	(6,863)	12,591
Net income from discontinued operations	–	–	103
Adjustment to reconcile net income to net cash provided by (used in) operating activities			
Minority interest	**–**	–	(96)
Depreciation	–	–	97
Amortization of goodwill	–	–	(38)
Allowance for doubtful accounts	–	–	(89)
Deferred tax expense (benefit)	–	–	247
Currency remeasurement loss relating to cash and cash equivalents	–	–	212
Net change in operating assets and liabilities – the Breweries (Note 5)	–	–	(276)
Net change in operating assets and liabilities – Expobank (Note 5)	–	–	(12,628)
Net cash used in operating activities associated with discontinued operations	–	–	(12,468)
Total net cash (used in) provided by operating activities	**31,184**	(6,863)	123

The accompanying notes are an integral part of these statements.

WIMM-BILL-DANN FOODS

Consolidated and Combined Statements of Cash Flows

(continued)

(Amounts in thousands of U.S. dollars)

	2003	2002	2001
Cash flows from investing activities:			
Cash paid for acquisition of subsidiaries, net of cash acquired	**$ (7,002)**	$ (39,571)	$ (8,855)
Cash paid for property, plant and equipment	**(91,974)**	(78,505)	(45,417)
Cash paid for acquisition of investments	**(753)**	(285)	(145)
Proceeds from disposal of investments	**4,196**	–	137
Proceeds from disposal of property, plant and equipment	**2,437**	–	–
Cash paid for net investments in direct financing leases	**(2,046)**	(1,843)	(855)
Cash paid for other long-term assets	**–**	(2,473)	(351)
Net cash used in investing activities associated with continuing operations	**(95,142)**	(122,677)	(55,486)
Purchase of property, plant and equipment – the Breweries	–	–	(322)
Purchase of property and equipment – Expobank	–	–	(30)
Net cash used in investing activities associated with discontinued operations	–	–	(352)
Total cash used in investing activities	**(95,142)**	(122,677)	(55,838)
Cash flows from financing activities:			
Proceeds from notes payable, net of debt issuance expenses	**194,476**	559	16,832
(Repayment of) proceeds from short-term loans and notes payable	**(107,820)**	771	32,232
Repayment of long-term loans	**(3,024)**	(9,930)	(2,475)
Proceeds from long-term loans	**5,138**	4,226	4,695
Repayment of long-term payables	**(15,371)**	(5,058)	(5,909)
Proceeds from issuance of capital stock, net of direct expenses	**–**	162,127	–
Repayment of obligations under finance leases	**–**	(95)	(762)
Net cash provided by financing activities associated with continuing operations	**73,399**	152,600	44,613
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	**73,399**	152,600	40,159
Total cash provided by operating, investing and financing activities associated with continuing operations	**9,441**	23,060	1,718
Impact of exchange rate differences on cash and cash equivalents associated with continuing operations	**1,483**	(639)	(300)
Net increase in cash and cash equivalents associated with continuing operations	**10,924**	22,421	1,418
Total cash used in operating, investing and financing activities associated with discontinued operations	**–**	–	(17,274)
Impact of exchange rate differences on cash and cash equivalents associated with discontinued operations	**–**	–	(212)
Net decrease in cash and cash equivalents associated with discontinued operations	**–**	–	(17,486)
Net increase (decrease) in cash and cash equivalents	**10,924**	22,421	(16,068)
Cash and cash equivalents, at beginning of period	29,340	6,919	22,978
Cash and cash equivalents, at the end of period	**$ 40,264**	$ 29,340	$ 6,919

The accompanying notes are an integral part of these statements.

WIMM-BILL-DANN FOODS

Consolidated and Combined Statements of Cash Flows

(continued)

(Amounts in thousands of U.S. dollars)

	2003	2002	2001
SUPPLEMENTAL INFORMATION:			
Income taxes paid	$ 12,280	$ 13,081	$ 3,073
Interest paid	17,2	14	10
Income taxes offset with VAT receivables	775	2	2
Taxes other than income taxes offset with VAT receivables	671	1	2
Vendor financed acquisitions of property, plant and equipment	12,8	51	23

The accompanying notes are an integral part of these statements.

WIMM-BILL-DANN FOODS

Consolidated and Combined Statements of Shareholders' Equity

(Amounts in thousands of U.S. dollars, except share amounts)

	Common Stock (Note 1)											
	Shares		Amount		Share Premium Account		Retained Earnings		Accumulated Other Comprehensive Income		Total
Balances at January 1, 2001	34,552,000	$	23,755		–	$	29,951		–	$	53,706
Issue of shares	448,000	$	308	$	7,850		–		–	$	8,158
Net income	–		–		–	$	31,848		–	$	31,848
Distribution to shareholders	–		–		–	$	(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
Net income	–		–		–	$	21,153		–	$	21,153
Currency translation adjustment	–		–		–		–	$	20,581	$	20,581
Balances at December 31, 2003	44,000,000	$	29,908	$	164,132	$	109,997	$	20,581	$	324,618

Wimm-Bill-Dann Foods has not paid any dividends for any of the periods presented.

The accompanying notes are an integral part of these statements.

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, 2003, owned controlling interests in 24 manufacturing facilities in 20 locations in Russia and the Commonwealth of Independent States ("CIS"), as well as distribution centers in 27 cities in Russia and abroad. WBD Foods has a strong and diversified brand portfolio with over 1,100 types of dairy products, over 150 types of juice, nectars and still drinks and a mineral water brand.

The Company 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, in a manner similar to a pooling of interests, for the periods presented. 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.

1. The Company (continued)

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

The Company and its subsidiaries maintain their accounting books and records in domestic currency based on domestic accounting regulations. The consolidated 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 reorganisation and are controlled by WBD Foods after reorganization (see Note 1 for description of reorganisation). This control is determined when the control group of shareholders (before reorganisation) and WBD Foods (after reorganisation) 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.

3. Summary of Significant Accounting Policies (continued)

Principles of Consolidation (continued)

All significant intercompany balances and transactions have been eliminated in consolidation.

Minority interests in the net assets and net results of companies within the Company are shown under "Minority interests" in the accompanying consolidated balance sheets and consolidated and combined statements of income.

Comprehensive Income

Comprehensive income is defined as the change in equity of a company during a period from non-owner sources. Comprehensive income of WBD Foods for the year ended December 31, 2003 consists of net income and a currency translation adjustment in the amount of $ 20,581. For the years ended December 31, 2002 and 2001 comprehensive income equaled net income.

Translation Methodology

Starting from January 1, 2003, Russia is no longer considered a hyperinflationary economy, therefore, the U.S. GAAP financial statements are prepared using the local currency, the Russian ruble, as the functional currency for WBD Foods' Russian subsidiaries. Subsequent translation to the reporting currency, the U.S. dollar, is made in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52. All assets and liabilities of the Company and its subsidiaries with functional currencies other than the U.S. dollar are translated into U.S. dollar equivalents at exchange rates as follows: (1) asset and liability accounts at the rate of exchange in effect on the balance sheet date, (2) revenues and expenses at the weighted average exchange rates for the year, and (3) shareholders' equity accounts at historical exchange rates. Translation gains or losses are recorded as a separate component of shareholders' equity, and transaction gains and losses are reflected in net income. For the years ended December 31, 2002 and 2001 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 were in hyperinflationary economies.

For the Russian entities in 2002 and prior, 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 income.

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 SFAS No. 52, "Foreign currency translation". The objective of this remeasurement process was to produce the same results that would have been reported if the accounting records had been kept in U.S. dollars.

3. Summary of Significant Accounting Policies (continued)

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 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 provided for.

3. Summary of Significant Accounting Policies (continued)

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 VAT 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 comprises 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 income.

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	20-50 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.

3. Summary of Significant Accounting Policies (continued)

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 – 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. Prior to 2002 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 recognized as an extraordinary gain in the period in which the business combination is completed.

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.

3. Summary of Significant Accounting Policies (continued)

Goodwill (continued)

The impact of non-amortization of goodwill on the Company's net income for the years ended December 31, 2003 and 2002 was $1,546 and $993, respectively, or $0.035 and $0.02 per share of common stock – basic and diluted.

In December 2003 and 2002, the Company performed the required annual impairment tests for goodwill and concluded that no impairment existed.

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.

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 product 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 statements of income.

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 statements of income.

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 financial statements. The amortization of government grants related to acquisition of property, plant and equipment is recognized as a reduction of 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.

3. Summary of Significant Accounting Policies (continued)

Debt Issuance Expenses

Debt issuance expenses are capitalized and amortized using the straight line method over the lives of the related debt.

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 more likely than not that such assets will not 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. Starting from January 1, 2003, the Company uses the Russian ruble as the functional currency and, therefore, there are no such differences for deferred tax purposes. Deferred taxes expenses associated with the temporary differences that arise from a change in functional currency on January 1, 2003 in amount of $2,616 was included in the currency translation adjustment component of other comprehensive income in shareholders' equity.

Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred. Advertising costs for the years ended December 31, 2003, 2002 and 2001 were $40,518, $32,355 and $18,263, respectively, and are reflected as a component of selling and distribution expenses in the accompanying consolidated and combined statements of income (see Note 24).

Earnings per Share

Earnings per common share have been determined based upon the weighted average number of shares outstanding during these periods. There are no potentially dilutive securities.

Concentration of Credit Risk

Financial instruments which potentially expose the Company to concentrations of credit risk consist primarily of cash in banks and trade accounts receivable. The Company deposits available cash with several financial institutions. The credit risk associated with trade accounts receivable is limited due to the Company's large domestic customer base. At December 31, 2003 and 2002, the Company had no other significant concentrations of credit risk. The Company does not usually require a collateral from its customers.

3. Summary of Significant Accounting Policies (continued)

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 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.

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 three major operating segments – dairy, juice and bottled water production and distribution, and accordingly, reports segment information on this basis.

Reclassifications

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current period.

VAT receivable recognised in respect of intercompany purchases was netted against VAT payable related to intercompany sales as of December 31, 2003. The corresponding reclassification as of December 31, 2002 amounted to $10,618. Such reclassifications had no impact on net income or shareholders' equity.

New Accounting Pronouncements

Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity

In May 2003, the FASB issued SFAS No.150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No.150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of the provisions of SFAS No.150 did not have a material impact on the Company's results of operations, financial position, or cash flows.

3. Summary of Significant Accounting Policies (continued)

Accounting Pronouncements Issued But Not Yet Adopted

Consolidation of Variable Interest Entities

In December 2003, the FASB issued Interpretation No. 46R, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 ("the Interpretation"), which revised Interpretation No. 46, issued in January 2003. The Interpretation addresses the consolidation of business enterprises (variable interest entities) to which the usual condition (ownership of a majority voting interest) of consolidation does not apply. This Interpretation focuses on financial interests that indicate control. It concludes that in the absence of clear control through voting interests, a company's exposure (variable interest) to the economic risks and potential rewards from the variable interest entity's assets and activities are the best evidence of control. Variable interests are rights and obligations that convey economic gains or losses from changes in the value of the variable interest entity's assets and liabilities. Variable interests may arise from financial instruments, service contracts, and other arrangements. If an enterprise holds a majority of the variable interests of an entity, it would be considered the primary beneficiary. The primary beneficiary would be required to include assets, liabilities, and the results of operations of the variable interests entity in its financial statements.

An enterprise with a variable interest in an entity to which the provisions of the original Interpretation have not been applied shall apply the provisions of the revised Interpretation as follows: a public enterprise that is not a small business issuer shall apply the Interpretation to all variable interests held (other than special-purpose entities) no later than the end of the first reporting period ending after March 15, 2004; a public enterprise that is a small business issuer shall apply the Interpretation to all variable interests held (other than special-purpose entities) no later than the end of the first reporting period ending after December 15, 2004; and a nonpublic enterprise with a variable interest in an entity that is created after December 31, 2003 shall apply the Interpretation to that entity immediately, and to all variable interests held by the beginning of the first annual reporting period beginning after December 15, 2004.

The Company will adopt the Interpretation in the first quarter of 2004. It is not expected to have a significant effect on the financial position or operations of the Company.

4. Businesses Acquired

Acquisition of minority interests

In September 2003, WBD Foods acquired 47.7% of Ufamolagroprom, a subsidiary, from minority shareholder for cash consideration of $3,138. The fair value of net assets acquired in excess of purchase price of $827 was recorded as reduction of the value of 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.

4. Businesses Acquired (continued)

Acquisition of minority interests (continued)

In June 2002, WBD Foods acquired 25% of Moscow Baby Food Plant ("ZDMP"), a subsidiary, from one of its shareholders for cash consideration of $5,000. 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.

The Company made a number of other acquisitions of minority interests in certain subsidiaries during the years ended December 31, 2003 and 2002. The total cash consideration paid for these acquisitions was $54 and $1,536 respectively. The acquisitions made during 2003 and 2002 resulted in fair value of net assets acquired in excess of purchase price of $0 and $602, 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.

Business Combinations

2003

In January 2003, the Company acquired 100% of Syberian Syr for cash consideration of $2,633. Syberian Syr owns warehousing facilities easily accessible by road and rail. The acquisition of Syberian Syr allows the Company to save on rental expenses associated with warehousing and office space in Syberia and provide the Company with a solid base to keep up with anticipated growth in the key Syberian marketplace. The cash consideration paid for this acquisition was allocated to property, plant and equipment ($1,453), goodwill ($1,411), less liabilities ($231).

In August 2003, the Company acquired 100% interest in two legal entities – Geyser and Curative Spring - involved in production of mineral water under the brand name Essentuki for cash consideration of $4,118. Essentuki is one of Russia's best known mineral water brand. With the acquisition of Essentuki, the Company acquired natural water wells, healing springs and bottling facilities. The cash consideration paid for these acquisitions was allocated to property, plant and equipment ($3,957), goodwill ($1,702), other current assets ($328) less liabilities ($1,869).

2002

In June 2002, the Company acquired 82.3% of Kharkov Dairy Plant for cash consideration of $5,136. Kharkov Dairy Plant is a strong player on the Ukranian market with a stable supply of raw materials.

4. Businesses Acquired (continued)

In July 2002, a 100% interest in Roska, a St. Petersburg dairy company, was acquired by the Company for cash consideration of $11,634. 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

In October 2002, the Company acquired 100% of Ruselectrocenter for cash consideration of $6,000. 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 provides a comprehensive range of services from storage to direct delivery to clients.

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 Company also acquired an interest in a number of other companies during 2002 for cash consideration of $6,807.

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).

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.

5. Discontinued Operations (continued)

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.

<u>Expobank</u>

	Period between January 1 and April 25, 2001
Interest income	$ 691
Interest expense	(258)
Provision for impairment	90
Net interest income	523
Non-interest income	1,142
Administrative expenses and other	(1,261)
Amortization of negative goodwill	170
Net income before income taxes and minority interest	574
Income taxes	(313)
Minority interest	(52)
Net income from discontinued operations	$ 209

5. Discontinued Operations (continued)

The Breweries

	Period between January 1 and April 25, 2001
Sales	$ 5,181
Cost of sales	(5,068)
Operating expenses	(90)
Operating income	23
Financial expense	(72)
Amortization of goodwill	(132)
Loss before taxes and minority interest	(181)
Income taxes	(73)
Minority interest	148
Net loss from discontinued operations	$ (106)

6. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2003 and 2002 were comprised as follows:

	2003	2002
Rubles	**$ 38,740**	$ 10,247
Hard currencies	**1,502**	9,076
Cash equivalents	**22**	10,017
Total cash and cash equivalents	**$ 40,264**	$ 29,340

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, 2003 and 2002 were comprised as follows:

	2003	2002
Trade receivables	**$ 68,879**	$ 62,883
Allowance for doubtful accounts	**(11,455)**	(2,737)
Total trade receivables, net	**$ 57,424**	$ 60,146

7. Trade receivables, net (continued)

The movement in the allowance for doubtful accounts for the years ended December 31, 2003, 2002 and 2001 was as follows:

	2003	2002	2001
Balance, beginning of period	**$ 2,737**	$ 581	$ 355
Allowance for doubtful accounts acquired in business combinations	**–**	495	–
Provision for doubtful accounts	**9,591**	1,970	226
Write off of trade receivables	**(1,361)**	(309)	–
Currency translation adjustment	**488**	–	–
Balance, end of period	**$ 11,455**	$ 2,737	$ 581

8. Inventory, net

Inventory as of December 31, 2003 and 2002 was comprised as follows:

	2003	2002
Raw materials	**$ 60,383**	$ 67,888
Work in progress	**3,082**	2,981
Finished goods	**28,319**	16,530
Reserve for inventory obsolescence	**(3,541)**	(1,336)
Total inventory, net	**$ 88,243**	$ 86,063

Obsolescence and net realizable value reserves expense during 2003, 2002 and 2001 amounted to $(2,100), $(1,154) and $(182), respectively, and was included in cost of sales in the accompanying consolidated and combined statements of income.

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 the receivable through the delivery of milk supplies to the Company based on a predetermined schedule. The settlement is based on milk prices, which are variable dependent upon prevailing market prices.

9. Net Investment in Direct Financing Leases (continued)

The following lists the components of the net investment in direct financing leases at December 31, 2003 and 2002:

	2003	2002
Total future minimum lease payments	**$ 6,748**	$ 6,759
Less: Unearned income	**(806)**	(1,040)
Net investment in direct finance leases	**$ 5,942**	$ 5,719
Current portion	**1,551**	1,338
Long-term portion	**4,391**	4,381

At December 31, 2003, total future minimum lease payments to be received for each of the five succeeding fiscal years are as follows:

Years ended December 31,	
2004	$ 1,927
2005	1,772
2006	1,602
2007	1,318
2008	129

10. Intangible Assets

Identifiable intangible assets as of December 31, 2003 and 2002 were comprised as follows:

	2003		2002	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Intangible assets with determinable lives:				
Supplier contracts	**$ 1,531**	**$ (433)**	$ 1,459	$ (109)
Trademarks	**234**	**(171)**	218	(47)
Customer relationships	**110**	**(67)**	106	–
Software	**772**	**(64)**	–	–
Others	**550**	**(203)**	514	(97)
Intangible assets with indefinite lives:				
Trademarks	**746**	**–**	692	–
Total intangible assets	**$ 3,943**	**$ (938)**	$ 2,989	$ (253)

During 2003, changes in intangible assets primarily relates to the Company's acquisition of $772 relating to software. Software and supplier contracts have a weighted average useful life of 5 years, customer relationship and trademarks have a useful life of 2 years.

10. Intangible Assets (continued)

Amortization expense during the years ended December 31, 2003, 2002 and 2001 amounted to $637, $164 and $90, respectively.

Amortization expense relating to the net carrying amount of intangible assets at December 31, 2003 is estimated to be $662 in 2004, $557 in 2005, $557 in 2006, $395 in 2007 and $89 in 2008.

11. Property, Plant and Equipment

The net book value of property, plant and equipment at December 31, 2003 and 2002 was comprised as follows:

	2003	**2002**
Buildings	**$ 90,227**	$ 59,293
Freehold machinery and equipment	**324,207**	187,625
Computer hardware	**11,167**	6,624
Other	**30,597**	26,173
Gross book value of property, plant and equipment	**456,198**	279,715
Accumulated depreciation	**(132,492)**	(100,414)
Advances paid for property, plant and equipment	**5,706**	18,485
Construction in progress and equipment for installation	**64,357**	95,794
Total property, plant and equipment, net	**$ 393,769**	$ 293,580

The Company capitalized interest costs of $1,741, $2,131, and $493 during the years ended December 31, 2003, 2002 and 2001, respectively, with respect to qualified construction projects.

Depreciation expense during the years ended December 31, 2003, 2002 and 2001 amounted to $30,145, $18,447, and $12,225, respectively.

12. Goodwill

The movement of goodwill for the years ended December 31, 2003 and 2002 comprised:

Balance at December 31, 2001	$ 11,179
Acquisitions	8,706
Balance at December 31, 2002	$ 19,885
Acquisitions	3,113
Currency translation adjustment	1,697
Balance at December 31, 2003	**$ 24,695**

13. Long-term Investments

At December 31, 2003 and 2002 the Company had the following direct investments in Russian companies:

	2003		2002	
	Ownership	**Amount**	**Ownership**	**Amount**
Albumin	**40.6%**	**$ 1,350**	40.6%	$ 1,251
Samara Lakto	**4.0%**	**320**	4.0%	296
Tsar'-Grad	**19.9%**	**340**	–	–
Other	**various**	**921**	various	442
Total long-term investments		**$ 2,931**		$ 1,989

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, 2003 and 2002, 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 Non-current Assets

Other non-current assets at December 31, 2003 and 2002 were comprised as follows:

	2003	2002
Notes issuance expenses, net of amortisation	**$ 3,894**	$ –
Advance for acquisition of Syberian Syr	**–**	2,379
Other	**653**	433
Total other assets	**$ 4,547**	$ 2,812

In May, 2002 LMK paid $2,379 in cash to a broker for the acquisition of shares of Syberian Syr. The ownership of these shares (100%) was transferred to LMK on January 15, 2003 (See Note 4).

15. Accrued Liabilities

Accrued liabilities at December 31, 2003 and 2002 were comprised as follows:

	2003	2002
Payroll related accruals	**$ 5,238**	$ 3,987
Interest accruals	**3,382**	1,759
Other accruals	**2,363**	2,600
Total accrued liabilities	**$ 10,983**	$ 8,346

16. Short-term and Long-term Loans

Short-term loans at December 31, 2003 and 2002 comprised the following:

	2003			2002		
	No. of loans	Amount	Weighted average interest rate	No. of loans	Amount	Weighted average interest rate
U.S. $ denominated	–	$ –	–	2	$ 8,000	6.72%
EURO denominated	–	–	–	1	98	6.40%
Ruble denominated, due January – March 2004	2	479	4.06%	31	81,524	16.21%
Other currency denominated, due March 2004	1	14	20.00%	5	4,428	22.54%
Total short-term loans		$ 493			$ 94,050	

Long-term loans at December 31, 2003 and 2002 comprised the following:

	2003			2002		
	No. of loans	Amount	Weighted average interest rate	No. of loans	Amount	Weighted average interest rate
U.S. $ denominated	3	$ 2,623	2,82%	4	$ 3,958	4,40%
EURO denominated	3	6,941	5,37%	4	2,745	4,92%
Ruble denominated	1	87	10,00%	2	326	15,76%
Total amount of long-term borrowings		9,651			7,029	
Less current portion of long-term loans		(1,769)			(2,483)	
Total long-term loans		$ 7,882			$ 4,546	

16. Short-term and Long-term Loans (continued)

Guarantees

Certain of the Company's loans are guaranteed by other parties as follows:

- ING-Bank (Eurasia) line of credit, in the amount of $1,833, 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 $479, was guaranteed by Bank of Moscow.

At December 31, 2003 and 2002, 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, 2003 was as follows:

Years ended December 31,		
2004	$	1,769
2005		1,537
2006		6,170
2007		175
Total long-term loans	$	9,651

Collateral

Certain of the Company's assets served as collateral for the short-term and long-term loans from International Moscow Bank, Moscow City Government and Bank Aval.

At December 31, 2003 and 2002 the assets that served as collateral consisted of the following:

- Inventory in the amounts of $6,157 and $42,037, respectively;
- Property, plant and equipment with a net book value of $189 and $56,718, respectively.

17. Short-term and Long-term Notes Payable

Notes payable at December 31, 2003 and 2002 comprised the following:

Issuer	Currency	2003	2002
LMK	Ruble	**$ 6,032**	$ 15,731
Bishkeksut	Kyrgyz som	**–**	365
Total short-term notes		**$ 6,032**	$ 16,096
WBD Foods	U.S.$	**$ 150,000**	$ –
WBD Foods	Ruble	**50,926**	–
Total long-term notes		**$ 200,926**	$ –

WBD Foods U.S.$ Notes

On May 21, 2003, UBS (Luxembourg) S.A. issued 8.5% Loan Participation Notes due 2008 for the sole purpose of funding a $150,000 loan (the "Loan") to Wimm-Bill-Dann Foods. The Loan will mature on May 21, 2008 and bears interest at an annual rate of 8.5%, payable semi-annually in arrears on May 21 and November 21 of each year.

Nine of WBD Foods' subsidiaries unconditionally, irrevocably, jointly and severally guarantee Wimm-Bill-Dann Foods OJSC's obligation under the Loan. The loan agreement contains a number of covenants including requirements to maintain certain financial ratios.

WBD Foods Ruble Notes

On April 15, 2003, Wimm-Bill-Dann Foods issued 1,500,000 non-convertible ruble denominated notes at a face value of 1,000 rubles each. The offering raised a total of 1,500,000 thousand rubles ($50,926 at the exchange rate as of December 31, 2003). The notes are redeemable by Wimm-Bill-Dann Foods on April 11, 2006. The interest rate of the first coupon period was 12.9%, for the second coupon period was 11.98%, interest rates for subsequent coupon periods are subject to change due to changes in the Consumer Price Index, published by Goskomstat of the Russian Federation, in comparison with the appropriate period of the prior year. Interest is payable semi-annually in arrears commencing on October 14, 2003. In accordance with the notes issuance terms, there are a number of covenants including requirements to maintain certain financial ratios.

LMK Ruble Notes

On November 1, 2001 LMK issued unsecured ruble denominated notes amounting to 500,000,000 rubles. The notes are unconditionally guaranteed by WBD Foods and mature 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, 2003 to January 31, 2004 interest was fixed at 12.5%. The amount of notes indebtedness outstanding was reduced to 177,670 thousand rubles ($6,032 at the exchange rate as of December 31, 2003) due to the repurchase of a portion of such notes by WBD Foods.

Bishkeksut Kyrgys Som Notes

During 2001 and 2002 Bishkeksut, a subsidiary, issued unsecured som denominated notes amounting to 40,000,000 Kyrgyz soms. For the first year, interest was fixed at 30.00%, for the period from December 1, 2002 to December 1, 2003 the interest rate was 18.00%. During 2003 Bishkeksut redeemed all these notes.

18. Other Payables

Other payables primarily represent payables for property, plant and equipment and were comprised as follows as of December 31, 2003 and 2002:

	2003	2002
Other payables for property, plant and equipment:		
Current payables	$ **9,528**	$ 5,264
Vendors financing obligations, including		
- current portion	**17,328**	14,384
- long-term portion	**49,012**	54,480
	75,868	74,128
Other payables:		
Current payables	**9,177**	5,992
Long-term payables, including		
- current portion	**–**	130
- long-term portion	**8**	567
	9,185	6,689
Total other payables	**85,053**	80,817
Less current liabilities	**(36,033)**	(25,770)
Total other long-term payables	$ **49,020**	$ 55,047

The Company has agreements with suppliers of equipment which provide financing for the periods ranging from 1 to 9 years. Total amount of vendor financing obligations is $48,786 and $51,509 for the years ended 2003 and 2002, respectively, EURO 13,166 thousand and EURO 16,655 thousand (equivalent to $16,460 and $17,355 as of December 31, 2003 and 2002, respectively) and 32,211 thousand Rubles (equivalent to $1,094 as of December 31, 2003). This financing is provided at interest rates of LIBOR plus 1.50% and EURIBOR plus 1.50%. The majority of equipment financing is provided by one supplier. At December 31, 2003 and 2002, property, plant and equipment amounting to $53,877 and $48,978, respectively, served as collateral under these financing agreements.

18. Other Payables (continued)

Aggregate maturity of other long-term payables outstanding at December 31, 2003 was as follows:

Years ended December 31,		
2004	$	36,033
2005		14,513
2006		13,548
2007		9,546
2008		6,152
Thereafter		5,261
Total maturity of other long-term payables		85,053
Less current portion of other long-term payables		(36,033)
Total other long-term payables	$	49,020

19. Income Tax

WBD Foods' provision for income taxes for the years ended December 31, 2003, 2002 and 2001 was as follows:

		2003		2002		2001
Current provision	$	14,866	$	14,211	$	11,993
Deferred (benefit) charge		(4,149)		38		2,173
Total provision for income taxes	$	10,717	$	14,249	$	14,166

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.

19. Income Tax (continued)

The actual provision for income taxes reconciled to WBD Foods' theoretical tax provision at statutory rate was as follows for the respective periods ended:

	2003	2002	2001
Income before provision for income taxes	$ 33,882	$ 51,917	$ 49,873
Russian statutory tax rate	24%	24%	35%
Theoretical tax provision at statutory rate	8,132	12,460	17,455
Expenses not deductible for Russian statutory taxation purposes:			
Inventory write off	1,508	171	189
Charity	405	132	–
Other expenses	1,432	3,180	7,178
Income not taxable for Russian statutory taxation purposes	(304)	(799)	(1,257)
Income tax privileges:			
Small business enterprises benefit	(2,981)	(4,855)	(8,695)
Baby food production benefit	–	–	(2,042)
Investment credits	–	–	(823)
Other income tax privileges	–	–	(383)
U.S. GAAP remeasurement loss (gain) not taxable/deductable for domestic statutory taxation purposes	–	686	(869)
Change in valuation allowance	2,481	2,147	945
Deferred tax liability resulting from tax effect of investment program	–	–	3,436
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	44	1,127	1,256
Actual provision for income taxes	$ 10,717	$ 14,249	$ 14,166

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.

19. Income Tax (continued)

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, 2003 and 2002:

	2003	**2002**
Deferred tax assets/(liabilities) arising from tax effect of:		
Salary related accruals	**$ 1,144**	$ 771
Sales volume discount accrual	**63**	222
Bad debt write off	**2,195**	337
Other accrued liabilities	**2,028**	1,223
Losses carried forward	**5,152**	2,89
Other	**880**	–
Gross deferred tax asset	**11,462**	5,446
Less valuation allowance for deferred tax asset	**(5,152)**	(2,893)
Deferred tax asset net of valuation allowance	**6,310**	2,553
Capital leases	**(1,251)**	(1,763)
Investment programs	**(2,064)**	(2,182)
Valuation of assets at fair market value as a result of business acquisitions	**(5,664)**	(4,879)
Bonds issuance costs	**(948)**	–
Other	**(1,650)**	–
Gross deferred tax liability	**(11,577)**	(8,824)
Net deferred tax liability	**$ (5,267)**	$ (6,271)
Analyzed as to:		
Current deferred tax asset	**5,210**	1,850
Long-term deferred tax asset	**1,893**	–
Long-term deferred tax liability	**12,370**	8,121

For statutory income tax purposes, WBD Foods had accumulated tax losses of $21,466 which may be carried forward for use against future income, of which $11,130 and $10,336 expire in 2012 and 2013, respectively. Their use is restricted to a maximum of 30% of taxable income per annum.

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 income 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, 2003 and 2002 comprised:

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
Amortization		(2,106)
Currency translation adjustment		751
Balance at December 31, 2003	**$**	**9,246**

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, 2003 and 2002, WBD Foods received operating grants from the Russian Government and Moscow City Government in the amount of $835 and $979 respectively. 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 income 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 16% at December 31, 2003) or in a fixed amount approximating to half of the 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.

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, 2003 retained earnings of WBD Foods which are distributable under statutory legislation totaled 335 million rubles ($11,373 at the exchange rate as at December 31, 2003).

22. Minority Interest

The movement in minority interest during the years ended December 31, 2003 and 2002 comprised:

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
Balance at December 31, 2002	$	21,549
Acquisitions by the Company of minority interests in subsidiaries		(4,019)
Minority interest share in income from continuing operations		2,012
Currency translation adjustment		1,626
Balance at December 31, 2003	**$**	**21,168**

23. Cost of Sales

Cost of sales for 2003, 2002, and 2001 were comprised of the following:

		2003		2002		2001
Raw materials	$	566,512	$	506,086	$	438,360
Personnel		33,040		26,548		20,103
Depreciation and amortization		24,753		14,983		10,609
Utilities		15,646		10,971		8,734
Goods for resale		13,640		13,770		10,273
Other		11,513		7,349		4,911
Total cost of sales	$	665,104	$	579,707	$	492,990

24. Selling and Distribution Expenses

Selling and distribution expenses for 2003, 2002, and 2001 were comprised of the following:

		2003		2002		2001
Advertising and marketing	$	43,777	$	34,857	$	19,562
Personnel		36,562		30,620		15,978
Transportation		31,364		24,700		17,144
Bad debt expense		10,220		3,232		245
Materials and supplies		7,446		6,311		2,597
Warehouse		4,978		5,228		2,408
Other		6,399		4,579		4,279
Total selling and distribution expenses	$	140,746	$	109,527	$	62,213

25. General and Administrative Expenses

General and administrative expenses for 2003, 2002, and 2001 were comprised of the following:

	2003	2002	2001
Personnel	$ 45,281	$ 33,800	$ 29,016
Audit, consulting and legal fees	7,307	2,613	2,170
Taxes other than income tax	5,465	11,872	8,452
Depreciation	3,674	2,075	1,111
Materials and supplies	3,206	2,399	1,623
Communication costs	2,105	1,800	1,324
Rent	1,898	1,531	1,176
Security expenses	293	559	2,210
Other	6,744	6,306	7,379
Total general and administrative expenses	$ 75,973	$ 62,955	$ 54,461

26. Financial Income and Expenses, net

Financial income and expense, net for 2003, 2002, and 2001 were comprised of the following:

	2003	2002	2001
Interest expense	$ 20,903	$ 12,818	$ 11,126
Interest income	(2,921)	(2,928)	(126)
Currency remeasurement (gains) losses	(4,834)	2,860	(2,483)
Bank charges	1,971	2,207	2,110
Other financial expense (income)	154	(826)	(46)
Total financial income and expense, net	$ 15,273	$ 14,131	$ 10,581

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% depending on the annual gross salary of each employee. The Russian Federation state pension fund contributions are expensed as incurred. Pension costs amounted to $17,498, $13,505 and $8,270 in 2003, 2002 and 2001, respectively. WBD has no other pension obligations.

28. Segment Information

The Company's major reportable business segments are dairy, juice and the water segments. These segments 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; fruit juices, nectars, and juice based drinks in the juice segment; and bottled mineral water in the water 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.

<u>Operating Segment – year ended December 31, 2003</u>

	Dairy	Juice	Water	Common and corporate assets/ expenses	Intersegmen treceivables	Consolidated
Total sales	$ 665,869	$ 274,455	$ 1,570	$ 131	–	$ 942,025
Intersegment sales	(3,566)	–	–	–	–	(3,566)
Sales to external customers	662,303	274,455	1,570	131	–	938,459
Cost of sales	(482,855)	(180,594)	(1,056)	(599)	–	(665,104)
Gross profit	179,448	93,861	514	(468)	–	273,355
Operating expenses	(117,342)	(73,448)	(6,747)	(26,663)	–	(224,200)
Operating income	62,106	20,413	(6,233)	(27,131)	–	49,155
Financial income and expense, net and current provision for income taxes	(22,649)	(2,082)	(70)	(5,338)	–	(30,139)
Net segment profit (loss)	39,457	18,331	(6,303)	(32,469)	–	19,016
Deferred tax benefit						4,149
Minority interest						(2,012)
Net income						21,153
Segment total assets	$ 496,799	$ 213,267	$ 17,606	$ 61,376	$ (45,163)	$ 743,885
Expenditure for segment property, plant and equipment	$ 70,481	$ 31,678	$ 1,934	$ 3,093	–	$ 107,186
Depreciation and amortization	$ 23,590	$ 5,472	$ 407	$ 1,311	–	$ 30,780

28. Segment Information (continued)

Operating Segment – year ended December 31, 2002

	Dairy	Juice	Water	Common and corporate 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 (loss)	66,236	18,351	–	(18,539)	–	66,048
Financial income and expense, net and current provision for income taxes	(21,659)	(5,636)	–	(1,047)	–	(28,342)
Net segment profit (loss)	$ 44,577	$ 12,715	–	(19,586)	–	$ 37,706
Deferred tax charge						(38)
Minority interest						(1,922)
Net income						$ 35,746
Segment total assets	$ 384,018	$ 183,442	$ 7,093	$ 39,447	$ (35,525)	$ 578,475
Expenditure for segment property, plant and equipment	$ 99,734	$ 26,538	$ 5,645	$ 4,163	–	$ 136,080
Depreciation and amortization	$ 13,777	$ 3,581	–	$ 1,253	–	$ 18,611

28. Segment Information (continued)

Continuing Operating Segment – year ended December 31, 2001

	Dairy	Juice	Other	Common and corporate 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	–	(17,236)	–	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	–	(17,236)	–	$ 37,880
Deferred tax charge						(2,173)
Minority interest						(3,962)
Net income from continuing operations						$ 31,745
Segment total assets	$ 214,718	$ 121,839	$ 1,967	$ 28,604	$ (14,411)	$ 352,717
Expenditure for segment property, plant and equipment	$ 30,801	$ 9,784	$ 88	$ 16,980	$–	$ 57,653
Depreciation and amortization	$ 9,858	$ 2,123	–	$ 741	–	$ 12,722

28. Segment Information (continued)

The changes in the carrying amount of goodwill for each segment for the years ended December 31, 2003, 2002 and 2001 were as follows:

	Dairy	Juice	Water	Total
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
Acquisitions	1,411	–	1,702	3,113
Currency translation adjustment	1,495	96	106	1,697
Balance at December 31, 2003	**$ 21,100**	**$ 1,310**	**$ 2,285**	**$ 24,695**

As of December 31, 2003, and 2002, segment total assets equaled consolidated total assets.

For the years ended December 31, 2003, 2002, and 2001, approximately 94%, 95%, and 97% of sales were generated in and sold to customers in Russia. As of December 31, 2003, 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 and 2001 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 Company with security services in 2002 and 2001 amounting to approximately $221 and $2,206, respectively. During 2003 the Company had no material transactions with Trinity.

Wimm-Bill-Dann Trans

During 2003, 2002 and 2001 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 $8,616, $5,909 and $5,251, respectively. As of December 31, 2003 and 2002 advances paid to WBD Trans in respect of transportation services amounted to $18 and $138, respectively.

29. Related Parties (continued)

<u>Perekriostok</u>

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 2003, 2002 and 2001 were $9,066, $6,804 and $0, respectively. Amounts due from TH as of December 31, 2003 and 2002 were $156 and $372, respectively.

<u>Adonis</u>

During 2003, 2002 and 2001, the Company paid for construction of an administrative building amounting to $810, $2,278 and $4,140, respectively, to Adonis, a limited liability company, which is controlled by members of the control group of shareholders. As of December 31, 2003 the outstanding amount due to Adonis is $9.

<u>Poultry Factory Gorki-2</u>

During 2003, 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 $875, $291 and $580, respectively. As of December 31, 2003 and 2002 accounts payable to Poultry Factory Gorki-2 in respect of milk received amounted to $27 and $15, respectively.

<u>Auto-40</u>

During 2003, the Company sold vehicles to the transportation company Auto-40, which is controlled by members of the control group of shareholders. The sales amounted to $566.

<u>The Breweries</u>

As of December 31, 2002 the Company had loans receivable from Brewery Volga, Volga-Invest and Moskvoretzky Brewery amounting to $693. These loans were repaid during 2003.

<u>Current shareholders</u>

During 2003, the Company paid for legal services, in the amount of $2,086 on behalf of certain shareholders. As of December 31, 2003, the outstanding amount due from these shareholders is $645.

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, 2003, contracted expenditures for the purchase of property, plant and equipment in the period subsequent to December 31, 2003 were $4,247, payable in 2004.

Insurance

As of December 31, 2003, the Company had insurance coverage of $135.1 million in respect of property, plant and equipment at 13 major factories. The insurance does not include coverage for business interruption, product liability or third party liability in respect of the property or environmental damage arising from accidents on the Company's property or relating to the Company's operations. Until the Company obtains the insurance coverage for an amount exceeding the carrying value of property, plant and equipment, 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.

Taxation

In the period prior to January 1, 2003, WBD used certain tax optimisation initiatives. The Russian tax authorities may challenge these initiatives. WBD believes that the tax savings to the Company in respect of these initiatives amounted to approximately $9.4 million. 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 0.053% at December 31, 2003, 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. Starting from January 2003, WBD discontinued using these tax optimization initiatives.