Wimm-Bill-Dann Foods

Consolidated Financial Statements

Year ended December 31, 2004
with Report of Independent Registered Accounting Firm

Wimm-Bill-Dann Foods

Consolidated Financial Statements

Year ended December 31, 2004

Contents

Report of Independent Registered Accounting Firm

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, 2004 and 2003, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for each of the three years ended December 31, 2004. 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.

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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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, 2004 and 2003 and the consolidated results of its operations and its cash flows for each of the three years ended December 31, 2004 in conformity with U.S. generally accepted accounting principles.

/sign./

March 21, 2005
Moscow, Russia

Wimm-Bill-Dann Foods

Consolidated Balance Sheets

(Amounts in thousands of U.S. dollars)

		December 31,	
	Notes	**2004**	**2003**
ASSETS			
Current assets:			
Cash and cash equivalents	**5**	**$ 23,791**	$ 40,264
Trade receivables, net	**6**	**62,210**	57,424
Inventory	**7**	**102,039**	88,243
Taxes receivable		**85,578**	92,624
Advances paid		**19,494**	19,690
Net investment in direct financing leases	**8**	**2,109**	1,551
Deferred tax asset	**18**	**6,265**	5,210
Other current assets		**7,145**	3,648
Total current assets		**308,631**	308,654
Non-current assets:			
Property, plant and equipment, net	**10**	**440,096**	394,477
Intangible assets, net	**9**	**2,251**	2,297
Goodwill	**11**	**26,291**	24,695
Net investment in direct financing leases – long-term portion	**8**	**3,895**	4,391
Long-term investments	**12**	**2,417**	2,931
Deferred tax asset – long-term portion	**18**	**7,001**	1,893
Other non-current assets	**13**	**5,506**	4,547
Total non-current assets		**487,457**	435,231
Total assets		$ **796,088**	$ 743,885

The accompanying notes are an integral part of these statements.

Wimm-Bill-Dann Foods

Consolidated Balance Sheets (continued)

	Notes	December 31, 2004	December 31, 2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade accounts payable		**$ 62,400**	$ 51,487
Advances received		**3,492**	2,586
Short-term loans	**15**	**17,554**	493
Long-term loans, current portion	**15**	**936**	1,769
Notes payable	**16**	**–**	6,032
Taxes payable		**13,281**	9,272
Accrued liabilities	**14**	**14,691**	10,983
Government grants – current portion	**19**	**2,329**	2,194
Other payables	**17**	**29,615**	36,033
Total current liabilities		**144,298**	120,849
Long-term liabilities:			
Long-term loans	**15**	**7,120**	7,882
Long-term notes payable	**16**	**201,709**	200,926
Other long-term payables	**17**	**39,294**	49,020
Government grants – long-term portion	**19**	**5,156**	7,052
Deferred taxes – long-term portion	**18**	**10,268**	12,370
Total long-term liabilities		**263,547**	277,250
Total liabilities		**407,845**	398,099
Commitments and contingencies	**29**	**–**	–
Minority interest	**21**	**17,327**	21,168
Shareholders' equity:	**20**		
Common stock: 44,000,000 shares authorized, issued and outstanding with a par value of 20 rubles at December 31, 2004 and 2003		**29,908**	29,908
Share premium account		**164,132**	164,132
Accumulated other comprehensive income:			
Currency translation adjustment		**43,905**	20,581
Retained earnings		**132,971**	109,997
Total shareholders' equity		**$ 370,916**	$ 324,618
Total liabilities and shareholders' equity		**$ 796,088**	$ 743,885

The accompanying notes are an integral part of these statements.

Wimm-Bill-Dann Foods

Consolidated Statements of Income and Comprehensive Income

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

	2004	2003	2002
Sales (Note 27)	**$ 1,189,291**	$ 938,459	$ 824,734
Cost of sales (Note 22)	**(861,661)**	(665,104)	(579,707)
Gross profit	**327,630**	273,355	245,027
Selling and distribution expenses (Note 23)	**(173,433)**	(140,746)	(109,527)
General and administrative expenses (Note 24)	**(92,816)**	(75,973)	(62,955)
Other operating expenses	**(8,458)**	(7,481)	(6,497)
Operating income	**52,923**	49,155	66,048
Financial income and expenses, net (Note 25)	**(14,618)**	(15,273)	(14,131)
Income before provision for income taxes and minority interest	**38,305**	33,882	51,917
Provision for income taxes (Note 18)	**(12,170)**	(10,717)	(14,249)
Minority interest (Note 21)	**(3,161)**	(2,012)	(1,922)
Net income	**$ 22,974**	$ 21,153	$ 35,746
Other comprehensive income, net of tax			
Currency translation adjustment	**23,324**	20,581	–
Comprehensive income	**$ 46,298**	$ 41,734	$ 35,746
Earnings per share - basic and diluted:			
Net income	**$ 0.52**	$ 0.48	$ 0.83
Income from currency translation adjustment	**$ 0.53**	$ 0.47	$ –
Comprehensive income	**$ 1.05**	$ 0.95	$ 0.83
Weighted average number of shares outstanding, basic and diluted	**44,000,000**	44,000,000	43,063,014

The accompanying notes are an integral part of these statements.

Wimm-Bill-Dann Foods

Consolidated Statements of Cash Flows

(Amounts in thousands of U.S. dollars)

	2004	2003	2002
Cash flows from operating activities:			
Net Income	**$ 22,974**	$ 21,153	$ 35,746
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Minority interest	**3,161**	2,012	1,922
Depreciation and amortisation	**44,003**	30,780	18,611
Currency remeasurement gain relating to bonds payable and long-term payables	**(9,938)**	(8,245)	(1,295)
Obsolescence and net realizable value expense	**3,482**	2,100	1,154
Provision for doubtful accounts	**1,784**	8,230	1,970
Loss (gain) on disposal of property, plant and equipment	**1,013**	(358)	606
Earned income on net investment in direct financing leases	**(639)**	(483)	(395)
Deferred tax (benefit) expense	**(6,019)**	(4,149)	38
Currency remeasurement loss relating to cash and cash equivalents	**–**	–	639
Non-cash rental received	**1,957**	2,095	1,606
Gain from securities	**–**	(1,903)	(742)
Write off of net investment in direct finance leases	**–**	–	162
Write off of long-term investments	**190**	–	–
Write off of trade receivables	**1,938**	1,361	1,262
Amortisation of bonds issue expenses	**1,025**	613	–
Changes in operating assets and liabilities:			
(Increase) decrease in inventories	**(9,208)**	2,394	5,194
Increase in trade accounts receivable	**(4,883)**	(2,356)	(34,893)
Decrease (increase) in advances paid	**1,356**	(7,681)	3,189
Decrease (increase) in taxes receivable	**13,979**	(30,723)	(32,880)
(Increase) decrease in other current assets	**(3,346)**	1,068	2,782
Increase (decrease) in trade accounts payable	**7,000**	6,363	(13,279)
Increase (decrease) in advances received	**719**	(1,565)	1,390
Increase in taxes payable	**1,526**	5,492	1,028
Increase (decrease) in accrued liabilities	**2,785**	1,898	(1,081)
(Decrease) increase in other current payables	**(3,148)**	2,071	619
Increase (decrease) in other long-term payables	**9**	(227)	(216)
Total cash provided by (used in) operating activities	**71,720**	29,940	(6,863)

Wimm-Bill-Dann Foods

Consolidated Statements of Cash Flows

(continued)

		2004		2003		2002
Cash flows from investing activities:						
Cash paid for acquisition of subsidiaries, net of cash acquired	**$**	**(6,697)**	$	(7,002)	$	(39,571)
Cash paid for property, plant and equipment		**(67,804)**		(91,974)		(78,505)
Cash paid for acquisition of investments		**–**		(753)		(285)
Proceeds from disposal of investments		**675**		4,196		–
Proceeds from disposal of property, plant and equipment		**2,081**		2,437		–
Cash paid for net investments in direct financing leases		**(1,764)**		(2,046)		(1,843)
Cash paid for other long-term assets		**(299)**		–		(2,473)
Net cash used in investing activities		**(73,808)**		(95,142)		(122,677)
Cash flows from financing activities:						
Proceeds from long-term notes payable, net of debt issuance expenses		**–**		194,476		559
Short-term loans and notes, net		**7,967**		(107,820)		771
Repayment of long-term loans		**(2,481)**		(3,024)		(9,930)
Proceeds from long-term loans		**343**		5,138		4,226
Repayment of long-term payables		**(19,727)**		(15,371)		(5,058)
Proceeds from issuance of capital stock, net of direct expenses		**–**		–		162,127
Repayment of long-term notes payable		**(2,261)**		–		–
Repayment of obligations under finance leases		**–**		–		(95)
Total cash (used in) provided by financing activities		**(16,159)**		73,399		152,600
Total cash (used in) provided by operating, investing and financing activities		**(18,247)**		8,197		23,060
Impact of exchange rate differences on cash and cash equivalents		**1,774**		2,727		(639)
Net (decrease) increase in cash and cash equivalents		**(16,473)**		10,924		22,421
Cash and cash equivalents, at beginning of period		**40,264**		29,340		6,919
Cash and cash equivalents, at the end of period	**$**	**23,791**	$	40,264	$	29,340
SUPPLEMENTAL INFORMATION:						
Income taxes paid	**$**	**20,523**	$	12,280	$	13,081
Interest paid		**14,615**		17,223		14,261
Income taxes offset with VAT receivables		**1,842**		775		2,437
Taxes other than income taxes offset with VAT receivables		**6,390**		671		1,601
Vendor financed acquisitions of property, plant and equipment		**7,335**		12,899		51,597

The accompanying notes are an integral part of these statements.

Wimm-Bill-Dann Foods

Consolidated Statements of Shareholders' Equity

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

	Common Stock		Share Premium Account	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	**Amount**				
Balances at January 1, 2002	**35,000,000**	**$ 24,063**	**$ 7,850**	**$ 53,098**	**$ –**	**$ 85,011**
Issue of shares (Note 20)	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**
Net income	–	–	–	22,974	–	22,974
Currency translation adjustment	–	–	–	–	23,324	23,324
Balances at December 31, 2004	44,000,000	$ 29,908	$ 164,132	$ 132,971	$ 43,905	$ 370,916

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, 2004, owned controlling interests in 25 manufacturing facilities in 21 locations in Russia and other parts of the Commonwealth of Independent States. WBD Foods also has distribution centers in 26 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.

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 of America ("U.S. GAAP") and expressed in terms of U.S. dollars (see paragraph "Translation Methodology" below).

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of WBD Foods and its subsidiaries. Control is determined when the Company owns, 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 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 on 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 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, 2004 and 2003 consists of net income and a currency translation adjustment in the amount of $23,324 and $20,581. For the year ended December 31, 2002 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, “Foreign Currency Translation”. 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 year ended December 31, 2002 the consolidated 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 statements of income.

3. Summary of Significant Accounting Policies (continued)

Translation Methodology (continued)

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 Ukrainian and Kyrgyz subsidiaries have been prepared using the Ukrainian grivna and Kyrgyz som, correspondingly, 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. 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.

The ruble is not a fully convertible currency outside the territory of the Russian Federation. Within the Russian Federation, official exchange rates are determined daily by the Central Bank of Russia ("CBR"). Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the CBR. As of December 31, 2004 and 2003, the official rates of exchange were 27.75 rubles = 1 U.S. dollar and 29.45 rubles = 1 U.S. dollar, respectively. The translation of ruble denominated assets and liabilities into US dollars for the purposes of these financial statements does not indicate that the Company could realize or settle, in U.S. dollars, the reported values of these assets and liabilities. Likewise, it does not indicate that the Company could return or distribute the reported U.S. dollar value of capital to its shareholders.

Management Estimates

The preparation of the consolidated 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.

3. Summary of Significant Accounting Policies (continued)

Inventory

Inventories, including work-in-process, are valued at the lower of cost or market. 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 condition 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 in the accompanying consolidated financial statements.

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 statement of income.

3. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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 and software	3-10 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 – 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. Goodwill is not amortized, but instead tested for impairment at least annually or whenever indicators of impairment arise.

3. Summary of Significant Accounting Policies (continued)

Goodwill (continued)

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.

In December 2004, 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 12). Management periodically assesses the realizability of the carrying values of the investments and provides valuation reserves, if required.

Revenue Recognition

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 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 statements of income.

Government Grants

Government grants are recognized when the related cash or assets are received. Government grants are deferred and amortized 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.

Before January 1, 2003, in accordance with SFAS No. 109, “Accounting for Income Taxes”, the Company did 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 tax expenses associated with the temporary differences that arise from a change in functional currency on January 1, 2003 in the 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, 2004, 2003 and 2002 were $46,106, $40,518 and $32,355, respectively, and are reflected as a component of selling and distribution expenses in the accompanying consolidated statements of income (see Note 23).

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, 2004, 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.

The fair value of cost method investments was not estimated as there were no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investments and management believes that it is not practicable considering their materiality and the fact that they are not readily marketable securities.

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.

New Accounting Pronouncements

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

In May 2003, the Financial Accounting Standards Board ("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)

New Accounting Pronouncements (continued)

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 interest 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 adoption of Interpretation No. 46R did not have an impact on the Company's results of operations, financial position, or cash flows.

Inventory Costs

In November 2004, the FASB issued FASB Statement No. 151, "Inventory Costs", an amendment of the Accounting Research Bulletin No. 43, Chapter 4. The amendments made by Statement 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities.

The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. Management believes that the adoption of the provisions of SFAS No.151 will not have a material impact on the Company's results of operations, financial position, or cash flows.

3. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

Accounting for Exchanges of Nonmonetary Assets

In December 2004, the FASB issued SFAS No. 153, “Exchanges of Nonmonetary Assets”. SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, “Accounting for Nonmonetary Transactions” (“APB No. 29”), is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. These provisions of SFAS No. 153 are effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges incurred during fiscal years beginning after the date SFAS No. 153 was issued. The adoption of the provisions of SFAS No. 153 is not expected to have a material impact on the Company’s results of operations or financial position.

4. Businesses Acquired

Acquisition of Minority Interests

In March and April 2004, WBD Foods acquired 6.2% of Tsaritsino Dairy Plant (“TsMK”), a subsidiary, from shareholders of WBD Foods for cash consideration of $3,406. The fair value of net assets acquired in excess of purchase price of $939 was recorded as a 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 21.

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 21.

In June 2002, WBD Foods acquired 25.0% 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 21.

4. Businesses Acquired (continued)

Acquisition of Minority Interests (continued)

The Company made a number of other acquisitions of minority interests in certain subsidiaries during the years ended December 31, 2004, 2003 and 2002. The total cash consideration paid for these acquisitions was $663, $54 and $1,536 respectively. The acquisitions made during 2004, 2003 and 2002 resulted in fair value of net assets acquired in excess of purchase price of $0, $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, 2004 and 2002 resulted in goodwill of $78 and $402. The changes in minority interests related to these acquisitions are presented as “Acquisitions by the Company of minority interests in subsidiaries” in Note 21.

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

2004

In December 2004, the Company acquired 88.4% of Atamanskoe farm for cash consideration of $904. Atamanskoe farm produces raw milk. The acquisition of Atamanskoe allows the Company to save on raw material expenses and become less dependable on raw milk suppliers, as well as ensure a steady supply of raw milk to keep up with anticipated growth in production driven by anticipated increase in market demand. The fair value of net assets acquired in excess of purchase price of $1,768 was subsequently recorded as a reduction of the value of property, plant and equipment.

In December 2004, the Company acquired 100% of two other companies for cash considerations of $344.

2003

In January 2003, the Company acquired 100.0% 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).

4. Businesses Acquired (continued)

Business Combinations (continued)

2003 (continued)

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.

In July 2002, a 100.0% 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 100.0% 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).

4. Businesses Acquired (continued)

Business Combinations (continued)

2002 (continued)

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. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2004 and 2003 were comprised as follows:

	2004	2003
Rubles	**$ 21,042**	$ 38,740
Hard currencies	**2,732**	1,502
Cash equivalents	**17**	22
Total cash and cash equivalents	**$ 23,791**	$ 40,264

6. Trade Receivables, net

Trade receivables as of December 31, 2004 and 2003 were comprised as follows:

	2004	2003
Trade receivables	**$ 76,141**	$ 68,879
Allowance for doubtful accounts	**(13,931)**	(11,455)
Total trade receivables, net	**$ 62,210**	$ 57,424

6. Trade Receivables, net (continued)

The movement in the allowance for doubtful accounts for the years ended December 31, 2004, 2003 and 2002 was as follows:

	2004	2003	2002
Balance, beginning of period	**$ 11,455**	$ 2,737	$ 581
Allowance for doubtful accounts acquired in business combinations	**–**	–	495
Provision for doubtful accounts	**3,722**	9,591	1,970
Write off of trade receivables	**(1,938)**	(1,361)	(309)
Currency translation adjustment	**692**	488	–
Balance, end of period	**$ 13,931**	$ 11,455	$ 2,737

7. Inventory

Inventory as of December 31, 2004 and 2003 was comprised as follows:

	2004	2003
Raw materials	**$ 68,921**	$ 56,842
Work in progress	**4,846**	3,082
Finished goods	**28,272**	28,319
Total inventory	**$ 102,039**	$ 88,243

Obsolescence and net realizable value expense during 2004, 2003 and 2002 amounted to $3,482, $2,100 and $1,154, respectively, and was included in cost of sales in the accompanying consolidated statements of income.

8. 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.

8. Net Investment in Direct Financing Leases (continued)

The following lists the components of the net investment in direct financing leases at December 31, 2004 and 2003:

	2004	2003
Total future minimum lease payments	**$ 6,458**	$ 6,748
Less: Unearned income	**(454)**	(806)
Net investment in direct finance leases	**$ 6,004**	$ 5,942
Current portion	**2,109**	1,551
Long-term portion	**3,895**	4,391

At December 31, 2004, total future minimum lease payments to be received for each of the five succeeding fiscal years are as follows:

Years ended December 31,	
2005	$ 2,230
2006	2,164
2007	1,645
2008	412
2009	$ 7

9. Intangible Assets

Identifiable intangible assets as of December 31, 2004 and 2003 were comprised as follows:

	2004		2003	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Intangible assets with determinable lives:				
Supplier contracts	**$ 1,626**	**$ (794)**	$ 1,531	$ (433)
Trademarks	**248**	**(184)**	234	(171)
Customer relationships	**116**	**(116)**	110	(67)
Others	**661**	**(98)**	550	(203)
Intangible assets with indefinite lives:				
Trademarks	**792**	**–**	746	–
Total intangible assets	**$ 3,443**	**$ (1,192)**	$ 3,171	$ (874)

Supplier contracts have a weighted average useful life of five years, customer relationship and trademarks have a useful life of two years.

Amortization expense during the years ended December 31, 2004, 2003 and 2002 amounted to $445, $570 and $164, respectively.

Amortization expense relating to the net carrying amount of intangible assets at December 31, 2004 is estimated to be $448 in 2005, $448 in 2006, $322 in 2007, $119 in 2008 and $119 in 2009.

10. Property, Plant and Equipment

The net book value of property, plant and equipment at December 31, 2004 and 2003 was comprised as follows:

	2004	2003
Buildings	**$ 117,095**	$ 90,227
Freehold machinery and equipment	**406,246**	324,207
Computer hardware and software	**14,531**	11,939
Other	**39,367**	30,597
Gross book value of property, plant and equipment	**577,239**	456,970
Accumulated depreciation	**(180,506)**	(132,556)
Advances paid for property, plant and equipment	**11,903**	5,706
Construction in progress and equipment for installation	**31,460**	64,357
Total property, plant and equipment, net	**$ 440,096**	$ 394,477

The Company capitalized interest costs of $996, $1,741, and $2,131 during the years ended December 31, 2004, 2003 and 2002, respectively, with respect to qualified construction projects.

Depreciation expense during the years ended December 31, 2004, 2003 and 2002 amounted to $43,558, $30,209, and $18,447, respectively.

11. Goodwill

The movement of goodwill for the years ended December 31, 2004 and 2003 comprised:

Balance at December 31, 2001	$ 11,179
Acquisitions	8,706
Currency translation adjustment	–
Balance at December 31, 2002	$ 19,885
Acquisitions	3,113
Currency translation adjustment	1,697
Balance at December 31, 2003	$ 24,695
Acquisitions	78
Currency translation adjustment	1,518
Balance at December 31, 2004	**$ 26,291**

12. Long-term Investments

At December 31, 2004 and 2003 the Company had the following direct investments in Russian companies:

	2004		2003	
	Ownership	**Amount**	**Ownership**	**Amount**
Albumin	**40.6%**	**$ 1,433**	40.6%	$ 1,350
Samara Lakto	**–**	**–**	4.0%	320
Tsar'-Grad	**–**	**–**	19.9%	340
Other	**various**	**984**	various	921
Total long-term investments		**$ 2,417**		$ 2,931

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, 2004 and 2003, 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. Investments in Samara Lakto and Tsar'-Grad were disposed of in 2004.

13. Other Non-current Assets

Other non-current assets at December 31, 2004 and 2003 were comprised as follows:

	2004	**2003**
Notes issuance expenses, net of amortisation	**$ 3,069**	$ 3,894
Advance for further step acquisition of minority interest in Sibirskoye moloko dairy plant	**1,057**	–
Advance for acquisition of farms	**376**	–
Other	**1,004**	653
Total other assets	**$ 5,506**	$ 4,547

14. Accrued Liabilities

Accrued liabilities at December 31, 2004 and 2003 were comprised as follows:

	2004	**2003**
Payroll related accruals	**$ 9,604**	$ 5,238
Interest accruals	**2,737**	3,382
Other accruals	**2,350**	2,363
Total accrued liabilities	**$ 14,691**	$ 10,983

15. Short-term and Long-term Loans

Short-term loans at December 31, 2004 and 2003 comprised the following:

	2004			2003		
	No. of loans	**Amount**	**Weighted average interest rate**	**No. of loans**	**Amount**	**Weighted average interest rate**
EURO denominated	**3**	**$ 739**	**4.23%**	–	$ –	–
Ruble denominated,	**12**	**16,815**	**10.68%**	2	479	4.06%
Other currency denominated,	**–**	**–**	**–**	1	14	20.00%
Total short-term loans		**$ 17,554**			$ 493	

Long-term loans at December 31, 2004 and 2003 comprised the following:

	2004			2003		
	No. of loans	**Amount**	**Weighted average interest rate**	**No. of loans**	**Amount**	**Weighted average interest rate**
U.S.$ denominated	**3**	**$ 1,809**	**4.11%**	3	$ 2,623	2.82%
EURO denominated	**2**	**6,201**	**5.63%**	3	6,941	5.37%
Ruble denominated	**1**	**46**	**10.00%**	1	87	10.00%
Total amount of long-term borrowings		**8,056**			9,651	
Less current portion of long-term loans		**(936)**			(1,769)	
Total long-term loans		**$ 7,120**			$ 7,882	

Guarantees

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

- ING-Bank (Eurasia) line of credit, in the amount of $1,255, 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 $5,783, was guaranteed by Bank of Moscow.

At December 31, 2004 and 2003, 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.

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

Unused lines of credit

At December 31, 2004 the Company had $32,960 of unused borrowings under its long-term lines of credit.

Maturity of long-term loans

Aggregate maturity of long-term loans outstanding at December 31, 2004 was as follows:

Years ended December 31,	
2005	$ 936
2006	7,120
Total long-term loans	**$ 8,056**

Collateral

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

At December 31, 2004 and 2003 the assets that served as collateral consisted of the following:

- Inventory in the amounts of $7,133 and $6,157, respectively;
- Property, plant and equipment with a net book value of $50,585 and $189, respectively.

16. Short-term and Long-term Notes Payable

Notes payable at December 31, 2004 and 2003 comprised the following:

Issuer	Currency	2004	2003
LMK	Ruble	**$ –**	$ 6,032
Total short-term notes		**$ –**	$ 6,032
WBD Foods	U.S.$	**$ 150,000**	$ 150,000
WBD Foods	Ruble	**51,709**	50,926
Total long-term notes		**$ 201,709**	$ 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 WBD 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 its obligation under the Loan. The loan agreement contains a number of covenants including requirements to maintain certain financial ratios.

16. Short-term and Long-term Notes Payable (continued)

WBD Foods Ruble Notes

On April 15, 2003, WBD 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 ($54,057 at the exchange rate as of December 31, 2004 of which $2,348 have been repaid as at December 31, 2004). The notes are redeemable by WBD Foods on April 11, 2006. The interest rate of the first coupon period was 12.9%, for the second coupon period was 12.0%, for the third coupon period was 9.4%, for the third coupon period was 8.5% interest rates for subsequent coupon periods are subject to change due to changes in the Consumer Price Index, published by the State Statistical Committee 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 were unconditionally guaranteed by WBD Foods and matured on November 1, 2004. On 31 October 2004 the notes were redeemed by LMK. Interest was payable quarterly. For the first year, interest was fixed at 22.8% and was 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%. For the period from February 1, 2004 to April 29, 2004 interest was fixed at 10.9%. For the period from April 30, 2004 to October 29, 2004 interest was fixed at 10.2%.

17. Other Payables

Other payables primarily represent payables for property, plant and equipment and were comprised as follows as of December 31, 2004 and 2003:

	2004	2003
Other payables for property, plant and equipment:		
Current payables	**$ 7,028**	$ 9,528
Vendors financing obligations, including		
- current portion	**16,598**	17,328
- long-term portion	**39,251**	49,012
	62,877	75,868
Other payables:		
Current payables	**5,989**	9,177
Long-term payables, including		
- current portion	**–**	–
- long-term portion	**43**	8
	6,032	9,185
Total other payables	**68,909**	85,053
Less current liabilities	**(29,615)**	(36,033)
Total other long-term payables	**$ 39,294**	$ 49,020

17. Other Payables (continued)

The Company has agreements with suppliers of equipment, which provide financing for the periods ranging from 1 to 9 years. At December 31, 2004 and 2003, vendor financing obligations were $40,378 and $48,786, respectively, 10,657 thousand EURO and 13,166 thousand EURO (equivalent to $14,521 and $16,460 as of December 31, 2004 and 2003, respectively) and 26,346 thousand rubles and 32,211 thousand rubles (equivalent to $950 and $1,094 as of December 31, 2004 and 2003, respectively). This financing is provided at interest rates of LIBOR plus 1.5%, EURIBOR plus 1.5% and 16.0% for U.S. dollar, EURO and ruble denominated contracts, respectively. The majority of equipment financing is provided by one supplier. At December 31, 2004 and 2003, property, plant and equipment amounting to $59,681 and $53,877, respectively, served as collateral under these financing agreements.

Aggregate maturity of other long-term payables outstanding at December 31, 2004 was as follows:

Years ended December 31,	
2005	$ 16,598
2006	15,990
2007	11,431
2008	6,454
2009	4,882
Thereafter	537
Total maturity of other long-term payables	55,892
Less current portion of other long-term payables	(16,598)
Total other long-term payables	**$ 39,294**

18. Income Tax

WBD Foods' provision for income taxes for the years ended December 31, 2004, 2003 and 2002 was as follows:

	2004	**2003**	**2002**
Current income tax provision	**$ 18,189**	$ 14,866	$ 14,211
Deferred income tax (benefit) charge	**(6,019)**	(4,149)	38
Total provision for income taxes	**$ 12,170**	$ 10,717	$ 14,249

WBD Foods' statutory income tax rate was 24% for the periods presented above.

Foreign current income tax provisions for the years ended December 31, 2004, 2003 and 2002 were $534, $568 and $141, respectively. Foreign deferred income tax benefit for the years ended December 31, 2004, 2003 and 2002 were $1,255, $1,137 and $205, respectively.

18. 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:

	2004	2003	2002
Income before provision for income taxes	**$ 38,305**	$ 33,882	$ 51,917
Russian statutory tax rate	**24%**	24%	24%
Theoretical tax provision at statutory rate	**9,193**	8,132	12,460
Tax effect of expenses not deductible for national statutory taxation purposes	**6,232**	3,345	3,483
Tax effect of income not taxable for national statutory taxation purposes	**(248)**	(304)	(799)
Tax effect of income tax privileges relating to small business enterprises benefit	**(1,278)**	(2,981)	(4,855)
Tax effect of U.S. GAAP remeasurement loss not deductible for domestic statutory taxation purposes	**–**	–	686
Decrease (increase) in valuation allowance	**(2,258)**	2,481	2,147
Tax effect of other	**529**	44	1,127
Actual provision for income taxes	**$ 12,170**	$ 10,717	$ 14,249

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.

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 financial statements only to the extent and in the year in which the credits are utilized.

18. Income Tax (continued)

Temporary differences between the tax bases of assets and liabilities and the respective carrying amounts in these consolidated financial statements give rise to the following deferred tax assets and liabilities at December 31, 2004 and 2003:

	2004	**2003**
Deferred tax assets/(liabilities) arising from tax effect of:		
Losses carried forward	**$ 10,066**	$ 5,933
Property, plant and equipment	**6,265**	5,193
Allowance for doubtful accounts	**3,437**	2,657
Obsolescence and net realizable value inventory write off and other accrued liabilities	**1,362**	1,566
Payroll related accruals	**217**	1,144
Other	**387**	942
Gross deferred tax asset	**21,734**	17,435
Less valuation allowance for deferred tax asset	**(7,869)**	(10,127)
Deferred tax asset net of valuation allowance	**13,865**	7,308
Property, plant and equipment	**(9,448)**	(10,627)
Bonds issuance costs	**(737)**	(948)
Other	**(682)**	(1,000)
Gross deferred tax liability	**(10,867)**	(12,575)
Net deferred tax asset (liability)	**$ 2,998**	$ (5,267)
Analyzed as to:		
Current deferred tax asset	**6,265**	5,210
Long-term deferred tax asset	**7,001**	1,893
Long-term deferred tax liability	**10,268**	12,370

For statutory income tax purposes, WBD Foods and its subsidiaries had accumulated tax losses of $39,870 which may be carried forward for use against future income, of which $9,104, $10,248 and $13,921 expire in 2012, 2013 and 2014, respectively, and $6,597 can be carried forward indefinitely. 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 deferred tax assets. 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.

During 2004 the Company reversed the valuation allowance for deferred tax assets relating to property, plant and equipment and losses carried forward in Fruktopak, one of its subsidiaries, amounting to $4,520 thousand as management believes that these deferred tax assets will be fully recoverable based on its analysis of positive and negative evidence such as cumulative profits in recent years and strong expectations of profitability in the future.

19. 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, 2004 and 2003 comprised:

Balance at December 31, 2002	$	10,601
Amortization		(2,106)
Currency translation adjustment		751
Balance at December 31, 2003	$	9,246
Amortization		(2,243)
Currency translation adjustment		482
Balance at December 31, 2004	**$**	**7,485**

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, 2004 and 2003, WBD Foods received operating grants from the Russian Government and Moscow City Government in the amount of $687 and $835. These grants related to interest rates on loans used for acquisition of milk and other raw materials, and are recognized in the consolidated statements of income in the period in which the related interest expense is incurred. The grants were provided at one half of the Central Bank of Russia interest rate (equating to 13% at December 31, 2004) 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.

20. Shareholders' Equity

On February 8, 2002, WBD Foods issued and sold 9,000,000 new ordinary shares (ADSs) registered with the United States 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, 2004 retained earnings of WBD Foods which are distributable under statutory legislation totaled 446 million rubles ($16,062 at the exchange rate as at December 31, 2004).

21. Minority Interest

The movement in minority interest during the years ended December 31, 2004 and 2003 comprised:

Balance at December 31, 2002	$	21,549
Acquisitions by the Company of minority interests in subsidiaries		(4,019)
Minority interest share in net income		2,012
Currency translation adjustment		1,626
Balance at December 31, 2003	$	21,168
Acquisitions by the Company of minority interests in subsidiaries		(8,452)
Acquisition of subsidiaries		342
Minority interest share in net income		3,161
Currency translation adjustment		1,108
Balance at December 31, 2004	**$**	**17,327**

22. Cost of Sales

Cost of sales for 2004, 2003, and 2002 were comprised of the following:

	2004	**2003**	**2002**
Raw materials	**$ 736,229**	$ 566,512	$ 506,086
Personnel	**44,293**	33,040	26,548
Depreciation and amortization	**35,865**	24,753	14,983
Utilities	**18,593**	15,646	10,971
Goods for resale	**6,675**	13,640	13,770
Other	**20,006**	11,513	7,349
Total cost of sales	**$ 861,661**	$ 665,104	$ 579,707

23. Selling and Distribution Expenses

Selling and distribution expenses for 2004, 2003, and 2002 were comprised of the following:

	2004	**2003**	**2002**
Advertising and marketing	**$ 54,298**	$ 43,777	$ 34,857
Personnel	**43,831**	36,562	30,620
Transportation	**45,938**	31,364	24,700
Bad debt expense	**3,722**	10,220	3,232
Materials and supplies	**8,447**	7,446	6,311
Warehouse	**8,937**	4,978	5,228
Other	**8,260**	6,399	4,579
Total selling and distribution expenses	**$ 173,433**	$ 140,746	$ 109,527

24. General and Administrative Expenses

General and administrative expenses for 2004, 2003, and 2002 were comprised of the following:

	2004	2003	2002
Personnel	**$ 53,250**	$ 45,281	$ 33,800
Audit, consulting and legal fees	**4,655**	7,307	2,613
Taxes other than income tax	**11,782**	5,465	11,872
Depreciation	**4,576**	3,674	2,075
Materials and supplies	**3,226**	3,206	2,399
Communication costs	**2,331**	2,105	1,800
Rent	**2,268**	1,898	1,531
Security expenses	**469**	293	559
Other	**10,259**	6,744	6,306
Total general and administrative expenses	**$ 92,816**	$ 75,973	$ 62,955

25. Financial Income and Expenses, net

Financial income and expense, net for 2004, 2003, and 2002 were comprised of the following:

	2004	2003	2002
Interest expense	**$ 22,348**	$ 20,903	$ 12,818
Interest income	**(1,421)**	(2,921)	(2,928)
Currency remeasurement (gains) losses	**(7,673)**	(4,834)	2,860
Bank charges	**1,857**	1,971	2,207
Other financial (income)/expense	**(493)**	154	(826)
Total financial income and expense, net	**$ 14,618**	$ 15,273	$ 14,131

26. Pension Costs

Starting from January 1, 2002 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 2% 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 2% depending on the annual gross salary of each employee. The Russian Federation state pension fund contributions are expensed as incurred. Pension costs amounted to $20,557, $17,498 and $13,505 in 2004, 2003 and 2002, respectively. WBD Foods has no other pension obligations.

27. 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 Foods' 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.

Operating Segment – year ended December 31, 2004

	Dairy	Juice	Water	Common and corporate assets/ expenses	Intersegment receivables	Consolidated
Total sales	$ 890,348	$ 297,895	$ 3,806	$ 27	$ –	$ 1,192,076
Intersegment sales	(2,785)	–	–	–	–	(2,785)
Sales to external customers	887,563	297,895	3,806	27	–	1,189,291
Cost of sales	(661,829)	(196,997)	(2,829)	(6)	–	(861,661)
Gross profit	225,734	100,898	977	21	–	327,630
Operating expenses	(161,216)	(80,190)	(6,786)	(26,515)	–	(274,707)
Operating income (loss)	64,518	20,708	(5,809)	(26,494)	–	52,923
Financial income and expense, net and current provision for income taxes	(18,334)	(3,319)	(29)	(11,125)	–	(32,807)
Net segment profit (loss)	$ 46,184	$ 17,389	$ (5,838)	$ (37,619)	$ –	$ 20,116
Deferred tax benefit						6,019
Minority interest						(3,161)
Net income						22,974
Segment total assets	$ 600,822	$ 202,664	$ 23,420	$ 24,671	$ (55,489)	$ 796,088
Expenditure for segment property, plant and equipment	$ 62,253	$ 7,371	$ 1,446	$ 1,569	$ –	$ 72,639
Depreciation and amortization	$ 32,090	$ 9,839	$ 1,170	$ 904	$ –	$ 44,003

27. Segment Information (continued)

Operating Segment – year ended December 31, 2003

	Dairy	Juice	Water	Common and corporate assets/ expenses	Intersegment receivables	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

27. Segment Information (continued)

Continuing 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	$ –	$ –	$ 1,253	$ –	$ 18,611

The changes in the carrying amount of goodwill for each segment for the years ended December 31, 2004, 2003 and 2002 were as follows:

	Dairy	Juice	Water	Total
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
Acquisitions	–	78	–	78
Currency translation adjustment	1,298	81	139	1,518
Balance at December 31, 2004	**$ 22,398**	**$ 1,469**	**$ 2,424**	**$ 26,291**

27. Segment Information (continued)

As of December 31, 2004, and 2003, segment total assets equaled consolidated total assets.

For the years ended December 31, 2004, 2003, and 2002, approximately 94%, 94%, and 95% of sales were generated in and sold to customers in Russia. As of December 31, 2004, 2003 and 2002, 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.

28. Related Parties

Trinity-Negus

During 2002 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 Company with security services in 2002 amounting to approximately $221. During 2003 and 2004 the Company had no material transactions with Trinity.

Wimm-Bill-Dann Trans

During 2004, 2003 and 2002 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 $11,149, $8,616 and $5,909, respectively. As of December 31, 2004 and 2003 advances paid to WBD Trans in respect of transportation services amounted to $247 and $18, respectively.

Perekriostok

Through 2003 one of the members of WBD Foods' Board of Directors was also a member of the Board of Directors in Trade House Perekriostok ("TH"), a closed joint stock company, which buys dairy and juice products from WBD Foods. Sales to TH 2003 and 2002 were $9,066 and $6,804, respectively. Amounts due from TH as of December 31, 2003 were $156.

Adonis

During 2004, 2003 and 2002, the Company paid for construction of an administrative building amounting to $127, $810 and $2,278, respectively, to Adonis, a limited liability company, which is controlled by members of the control group of shareholders.

28. Related Parties (continued)

Milk suppliers

During 2004, 2003 and 2002 the Company purchased milk from certain milk supplying companies, which are controlled by members of the control group of shareholders, amounting to $2,614, $900 and $291, respectively. As of December 31, 2004 and 2003 accounts payable to these milk supplying companies in respect of milk received amounted to $109 and $27, respectively.

Auto-40

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.

Shareholders

During 2004, WBD Foods acquired 6.2% interest in TsMK from shareholders of WBD Foods for $3,406 (see Note 4).

During 2004 and 2003 the Company paid for legal services, in the amount of $507 and $2,086 respectively, on behalf of certain shareholders. As of December 31, 2004 all these amounts were fully repaid by the shareholders.

During 2002, WBD Foods acquired 25.1% interest in ZDMP from one of its shareholders for $5,000 (see Note 4).

29. Commitments and Contingencies

Property, plant and equipment purchase commitments

As of December 31, 2004, contracted expenditures for the purchase of property, plant and equipment in the period subsequent to December 31, 2004 were $12,329, payable in 2005.

Insurance

As of December 31, 2004, the Company had insurance coverage of $321 million in respect of property, plant and equipment at 18 major factories. The Company had insurance for business interruption at 5 major facilities with total coverage of $55 million. At 17 facilities the Company had product liability insurance with $1 million liability coverage per facility. Until the Company obtains 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.

29. Commitments and Contingencies (continued)

Taxation

In the period prior to January 1, 2003, WBD Foods used certain tax optimization initiatives. The Russian tax authorities may challenge these initiatives. Management believes that the tax savings to the Company in respect of these initiatives amounted to approximately $3.8 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 0.043% at December 31, 2004, 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 Foods discontinued using these tax optimization initiatives.

During the period 2001 to 2004 certain subsidiaries of WBD Foods utilized small business enterprises income tax benefit which were available under Russian income tax legislation being in force before January 1, 2002 (see Note 18). The Company believes that the tax savings to the Group for the period 2001 to 2004 in respect of these income tax benefits amounted to approximately $17.8 million. In 2004, the Russian tax authorities have questioned the use of some of these benefits by WBD Foods' subsidiaries for the year 2001. Should the Russian tax authorities decide to issue a claim and prove successful in the court, and/or expand the period of this claim to 2002, 2003 and 2004, they would be entitled to recover the amount claimed, together with penalties amounting to 20% of such amount and interest at the rate of 1/300 of the Central Bank of Russia rate for each day of delay for late payment of such amounts. In any case, WBD Foods' management believes that is has strong grounds on which to oppose any such claim and will vigorously defend its position.