WIMM BILL DANN FOODS OJSC
Form 6-K
October 03, 2005

FORM 6-K

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer
September 29, 2005

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

Commission file number: 001-31232

WIMM-BILL-DANN FOODS OJSC

(Exact name of Registrant as specified in its charter)

Russian Federation

(Jurisdiction of incorporation or organization)

16, Yauzsky Boulevard

Moscow 109028

Russian Federation

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ý Form 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No ý

Q U A R T E R L Y R E P O R T

of Issuer of Emissive Securities

for the second quarter of 2005

OPEN JOINT STOCK COMPANY
WIMM-BILL-DANN FOODS

Issuer s code 0 6 0 0 5 – A

Location: 109028, Moscow, Yauzsky Boulevard, 16/15, office 306
Postal address: 109028, Moscow, Yauzsky Boulevard, 16/15, office 306

Information contained in the present Quarterly Report is subject to disclosure in conformity with the legislation of Russian Federation relating to securities.

Representative by power of attorney
dated 01.07.2005 No01/07-01 /s/ R.V. Bolotovsky

15 August 2005 R.V. Bolotovsky

Chief Accountant
/s/ I.V. Plekhanova

15 August 2005 I.V. Plekhanova

(place for stamp)

Contact person: ***Kolesnikov Ilya Mikhailovich***

Legal adviser

Tel.: ***(095) 105-5805 (ext. 1371)***
Fax: ***(095) 733-9736***

E-mail: **KolesnikovIM@wbd.ru**

Internet page(s) displaying information contained in this quarterly report:
htpp:/**/www.wbd.ru/wbd/quarterly_report/**

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INTRODUCTION

Issuer s full proprietary name.

Open Joint Stock Company Wimm-Bill-Dann Foods

Issuer s abbreviated name

WBD Foods

Issuer s location

109028, Moscow, Yauzsky Boulevard, 16/15, office 306

Data on Issuer s contact tel. numbers and email

Tel (095) 105-58-05

Email: KolesnikovIM@WBD.ru

Internet page(s) displaying information contained in this quarterly report:
htpp://www.wbd.ru/wbd/quarterly_report/

Data on Issuer s shares.

Category: ***Common***

Form of Shares: ***Registered, uncertificated***

Nominal Price of One Share: ***20 rubles***

Quantity of Shares placed: ***44 000 000***

Data on Issuer s bonds

Series Number: **01**

Type: **interest-bearing**

Category: **nonconvertible bearer bonds**

Form of Securities: ***Certificated***

Nominal Price of One Security of the issue: ***1000 rubles***

Quantity of Securities: ***1 500 000***

Other Material Information on Issuer s Securities.

None

This quarterly report contains evaluations and forecasts of the Issuer s authorized executive bodies regarding the future events and/or actions, perspective development in the industry branch where the Issuer carries out its principal business, and the results of the Issuer s activities, including the Issuer s plans, probability of certain events and certain actions to be undertaken. Investors should not fully rely on the evaluations and forecasts made by the Issuer s executive bodies, as the actual results of its activities in future might differ from those forecast due to various reasons. Acquisition of the Issuer s securities is associated with risks described in this quarterly report.

I BRIEF DATA ON THE PERSONS, MEMBERS OF THE ISSUER S EXECUTIVE BODIES, INFORMATION ON BANK ACCOUNTS, THE AUDITOR, THE APPRAISER AND THE ISSUER S FINANCIAL CONSULTANT, AS WELL AS ON OTHER PERSONS, HAVING SIGNED THE QUARTERLY REPORT

1.1 Persons, members of the Issuer s executive bodies

Board of Directors

Chairman: ***David Iakobachvili***

Born: ***1957***

Members of Issuer s Board of Directors:

Dubinin, Mikhail Vladimirovich

Born: ***1969***

Orlov, Alexander Sergeevich

Born: ***1948***

Plastinin, Sergei Arkadievich

Born: ***1968***

<u>Scherbak, Vladimir Nikolaevich</u>

Born: ***1939***

<u>Tutelyan, Victor Alexandrovich</u>

Born: ***1942***

<u>Yushvaev, Gavril Abramovich,</u>

Born: ***1957***

<u>Yasin, Eugeny Grigorievich</u>

Born: ***1934***

Guy de Selliers

Born: ***1952***

Michael A. O Neill

Born: ***1945***

Ernest Linwood Tipton

Born: ***1934***

Issuer s individual and collective administrative/managerial staff.

Individual executive body and members of collective executive body:

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Chairman of the Management board

<u>Plastinin, Sergei Arkadievich</u>

Born: ***1968***

Members of the Management Board

Anisimov, Dmitry Aleksandrovich

Born: ***1961***

Kuzymin Oleg Egorovich

Born: ***1969***

Yadegardjam Djamshid

Born: ***1965***

<u>Eliseeva, Vera Vladimirovna</u>

Born: ***1958***

<u>Kagan, Marina Gennadyevna</u>

Born: ***1968***

<u>Kraynov, Gennady Konstantinovich</u>

Born: ***1951***

Person performing the functions of individual executive body of the Issuer:

Sergei Arkadievich Plastinin

Born: ***1968***

1.2 Information on the Issuer s bank accounts

INFORMATION ON RUBLE ACCOUNTS WITH BANKS AND OTHER CREDIT INSTITUTIONS OPERATING IN THE RUSSIAN FEDERATION as of June 30, 2005

No.	Type of Account	Account Number	Name and Location of the Bank
1	2	3	4
1	settlement	Settlement A/C No. 40702 810 1 00700 883 027 Correspondent A/C No. 30101810300000000202 BIC 044252202	COMMERCIAL BANK CITIBANK CJSC 125047 Moscow, Gashek Str. 8-10
2	settlement	Settlement A/C No. 40702 810 4 00000 030 108 Correspondent A/C No. 30101810900000000460 BIC 044585460	COMMERCIAL BANK EXPOBANK Moscow, Leontyevsky Per. 21/1, Bldg 1
3	settlement	Settlement A/C No. 40702 810 4 00070 027 130 Correspondent A/C No. 30101810900000000466 BIC 044525466	MDM-BANK OJSC 113035 Moscow, Sadovnicheskaya Str. 3
4	settlement	Settlement A/C No. 40702 810 7 00070 000 569 Correspondent A/C No. 30101810500000000219 BIC 044525219	BANK OF MOSCOW OJSC 107996 Moscow, Kuznetsky Most Str. 15
5	settlement	Settlement A/C No. 40702 810 2 01500 000 016 Correspondent A/C No. 30101810200000000593 BIC 044525593	ALPHA-BANK OJSC 117049 Moscow, Mytnaya Str. 1, Bldg 1
6	settlement	Settlement A/C No. 40702 810 9 38000 110 483	SBERBANK OF RUSSIA

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		Correspondent A/C No. 30101810400000000225 BIC 044525225	117997 Moscow, Vavilov Str. 19
7	settlement	Settlement A/C No. 40702 810 6 38360 104 497 Correspondent A/C No. 30101810400000000225 BIC 044525225	SBERBANK OF RUSSIA 117997 Moscow, Vavilov Str. 19
8	brokerage	Settlement A/C No. 30601 810 5 00009 004 435 Correspondent A/C No. 30101810200000000593 BIC 044525593	ALPHA-BANK OJSC 117049 Moscow, Mytnaya Str. 1, Bldg 1
9	settlement	Settlement A/C No. 40702 810 6 00090 020 670 Correspondent A/C No. 30101810700000000187 BIC 044525187	Vneshtorgbank OJSC 107996 Moscow, Kuznetsky Most Str. 16
10	deposit	Settlement A/C No. 42102 810 9 00700 883 026 Correspondent A/C No. 30101810300000000202 BIC 044252202	COMMERCIAL BANK CITIBANK CJSC 125047 Moscow, Gashek Str. 8-10
11	settlement	Settlement A/C No. 40702 810 4 00010 544 422 Correspondent A/C No. 30101810300000000545 BIC 044525545	International bank of Moscow CJSC 119034 Moscow, Prechistenskaya nab., 9
12	special	Settlement A/C No. 30227810200700883108 Correspondent A/C No. 30101810300000000202BIC 044252202	COMMERCIAL BANK CITIBANK CJSC 125047 Moscow, Gashek Str. 8-10
13	loan	Settlement A/C No. 45205 810 1 03700 883 034 Correspondent A/C No. 30101810300000000202 BIC 044252202	COMMERCIAL BANK CITIBANK CJSC 125047 Moscow, Gashek Str. 8-10
14	settlement	Settlement A/C No. 40702 810 4 00001 401 757 Correspondent A/C No. 30101810200000000700 BIC 044525700	Raiffeisenbank Austria CJSC 129090 Moscow, Troitskaya Str. 17/1
15	loan	Settlement A/C No. 45206810153601200685 Correspondent A/C No. 30101810200000000700 BIC 044525700	Raiffeisenbank Austria CJSC 129090 Moscow, Troitskaya Str. 17/1

INFORMATION ON FOREIGN EXCHANGE ACCOUNTS WITH BANKS AND OTHER CREDIT INSTITUTIONS OPERATING IN THE RUSSIAN FEDERATION AND ABROAD as of June 30, 2005

No.	Type of Account	Foreign Exchange Account Number	Name and Location of the Bank (zip code, address, telephone)

1	2	3	4
1	current F/X	No. 40702 840 9 00700 883 019	COMMERCIAL BANK CITIBANK CJSC 125047 Moscow, Gashek Str. 8-10 Telephone: 725-69-35
2	transit	No. 40702 840 9 00700 883 035	COMMERCIAL BANK CITIBANK CJSC 125047 Moscow, Gashek Str. 8-10 Telephone: 725-69-35
3	special	No. 40819 840 1 00001 311 601	COMMERCIAL BANK CITIBANK CJSC 125047 Moscow, Gashek Str. 8-10 Telephone: 725-69-35
4	loan	No. 45201 840 2 01700 883 007	COMMERCIAL BANK CITIBANK CJSC 125047 Moscow, Gashek Str. 8-10 Telephone: 725-69-35
5	current F/X	No. 40702 978 5 00700 883 051	COMMERCIAL BANK CITIBANK CJSC 125047 Moscow, Gashek Str. 8-10 Telephone: 725-69-35
6	transit	No. 40702 978 8 00700 883 078	COMMERCIAL BANK CITIBANK CJSC 125047 Moscow, Gashek Str. 8-10 Telephone: 725-69-35

7	current F/X	No. 40702 840 4 00150 027 130	MDM-BANK OJSC 113035 Moscow, Sadovnicheskaya Str. 3 Telephone: 797-95-00
8	transit	No. 40702 840 7 00151 027 130	MDM-BANK OJSC 113035 Moscow, Sadovnicheskaya Str. 3 Telephone: 797-95-00
9	current F/X	No. 40702 840 8 01500 000 004	ALPHA-BANK OJSC 117049 Moscow, Mytnaya Str. 1, Bldg 1 Telephone: 786-22-82
10	transit	No. 40702 840 7 01503 000 004	ALPHA-BANK OJSC 117049 Moscow, Mytnaya Str. 1, Bldg 1 Telephone: 786-22-82
11	current F/X	No. 40702 840 2 38000 110 483	SBERBANK OF RUSSIA 117997 Moscow, Vavilov Str. 19 Telephone: 785-44-30
12	transit	No. 40702 840 1 38000 210 483	SBERBANK OF RUSSIA 117997 Moscow, Vavilov Str. 19 Telephone: 785-44-30
13	current F/X	No. 40702 978 6 00002 401 757	Raiffeisenbank Austria CJSC 129090 Moscow, Troitskaya Str. 17/1
14	transit	No. 40702 978 9 00003 401 757	Raiffeisenbank Austria CJSC 129090 Moscow, Troitskaya Str. 17/1
15	loan	No. 45207 978 6 99911 401 757	Raiffeisenbank Austria CJSC 129090 Moscow, Troitskaya Str. 17/1
16	loan	No. 45207 840 0 99911 401 757	Raiffeisenbank Austria CJSC 129090 Moscow, Troitskaya Str. 17/1
17	current F/X	No. 40702 840 7 00000 012 592	ROSBANK JSCB 107078 Moscow, Masha Poryvayeva Str. 11
18	transit	No. 40702 840 6 00003 012 592	ROSBANK JSCB 107078 Moscow, Masha Poryvayeva Str. 11
19	current F/X	No. 40702 840 0 00070 000 569	AK MMB BANK OF MOSCOW OJSC 107996 Moscow, Kuznetsky Most Str. 15
20	transit	No. 40702 840 3 00071 000 569	AK MMB BANK OF MOSCOW OJSC 107996 Moscow, Kuznetsky Most Str. 15
21	current F/X	No. 40702 978 3 00001 401 757	

			Raiffeisenbank Austria CJSC 129090 Moscow, Troitskaya Str. 17/1
22	transit	No. 40702 978 0 00000 401 757	Raiffeisenbank Austria CJSC 129090 Moscow, Troitskaya Str. 17/1
23	current F/X	No. 40702 978 5 00090 020 670	VNESHTORGBANK OJSC 107996 Moscow, Kuznetsky Most Str. 16
24	transit	No. 40702 978 1 00092 020 670	VNESHTORGBANK OJSC 107996 Moscow, Kuznetsky Most Str. 16
25	special transit	No. 40702 978 8 00091 020 670	VNESHTORGBANK OJSC 107996 Moscow, Kuznetsky Most Str. 16
26	current F/X	No. 40702 840 7 00001 401 757	Raiffeisenbank Austria CJSC 129090 Moscow, Troitskaya Str. 17/1
27	transit	No. 40702 840 4 00000 401 757	Raiffeisenbank Austria CJSC 129090 Moscow, Troitskaya Str. 17/1
28	current F/X	No. 40702 840 0 00002 401 757	Raiffeisenbank Austria CJSC 129090 Moscow, Troitskaya Str. 17/1
29	transit	No. 40702 840 3 00003 401 757	Raiffeisenbank Austria CJSC 129090 Moscow, Troitskaya Str. 17/1
30	current F/X	No. 40702 840 3 00000 000 199	Standart Bank CJSC Moscow, Vozdvighenka 4/7, str.2

1.3. Data on Issuer s public accountant / auditor.

Name: ***Ernst and Young, OOO***

Location: ***115035, Moscow, Sadovnicheskaya naberegnaya, d.77, str.1***

Taxpayer ID: ***7709383532***

Postal address: ***115035, Moscow, Sadovnicheskaya naberegnaya, d.77, str.1***

Tel.: ***(095) 755-9700,*** Fax: ***(095) 755-9701***

Information on auditor s license

License number: ***E 002138***

Date of issue of license: ***September 30, 2002***

Period of validity: ***September 30, 2007***

Organization that issued the license: ***RF Ministry of Finance***

1.4 Information on the Issuer s appraiser

The appraiser has not been employed in the accounting quarter.

1.5 Information on the Issuer s consultants

Financial consultants for the purpose of the preparation and signing of the securities prospectus issue and this report were not employed.

1.6 Information on other persons having signed the quarterly report

In relation to other persons having signed the quarterly report and not indicated in the previous articles of this section:

Irina V. Plekhanova
Tel: (095) 105 5805
Fax: (095) 105 5805 (ext. 10-85)

II BASIC INFORMATION ON THE ISSUER S FINANCIAL AND ECONOMIC STATUS

2.1 Indicators of the Issuer s financial and economic activities

Indicators of the Issuer s financial and economic activities from January 1, 2005 till June 30, 2005.

No	Indicator	1 half 2005
1	**Value of issuer s net assets, thou. rubles**	6 144 866
2	**Ratio of attracted funds to capital and reserves,%**	97.07
3	**Ratio of short-term liabilities to capital and reserves,%**	2.40
4	**Coverage of debt service payments, rubles**	2.16
5	**Level of overdue debt,%**	0
6	**Receivables turnover, times**	0.38
7	**Dividend payments as percentage of profits**	0
8	**Labor efficiency, thou.RUR per person**	737.82
9	**Depreciation as percentage of earnings,%**	4.11

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2.2 Issuer s market capitalization

The arranger of the sales at the equity market is the New York Stock Exchange (NYSE). The Issuer s market capitalization calculated as the derivation of the number of shares expressed in ADRs, and the price of one share (ADR), amounts to:

As of 31.12.2001 RUR 699 085 000 (as of the present date the issue s market capitalization is calculated as the equivalent of the issue net assets value).

As of 31.12.2002 US$17.95 x 44,000,000 = US$789,800,000

As of 31.12.2003 US$17.00 x 44,000,000 = US$748,000,000

As of 31.12.2004 US$14.31 x 44,000,000 = US$629,640,000

As of 30.06.2005 US$16.43 x 44,000,000 = US$722,920,000

The price of one share (ADR) corresponds to the price of one share (ADR) set within the recent transaction contracted as at the last date of the accounting period.

2.3 Issuer s obligations

2.3.1 Accounts Payable, thou.rubles

Breakdown of the Issuer s debt as of 01.07.2005.

Type of debt	**Payment date**	
	Within one year	**Over one year**
Debt:	56 285	
Accounts payable to suppliers and contractors, thousand RUR	19 317	
Including overdue, thousand RUR		
Sums payable to the personnel, thousand RUR	26 078	
Including overdue, thousand RUR		
Sums payable to the state budget and off-budget funds, thousand RUR	9 997	
Including overdue, thousand RUR		
Other debts	893	
Including overdue, thousand RUR		
Credits, thousand RUR	41 609	4 300 815
Including overdue, thousand RUR		
Loans, total, thousand RUR	35 122	1 516 000
Including overdue, RUR thousand		
Including bonded debt, thousand RUR		1 500 000
Included overdue bonded debt, thousand RUR		
Total, RUR	133 016	5 816 815
Including overdue, RUR thousand		

Of WBD Foods accounts payable as at July 1, 2005, Lianozovo Dairy OJSC accounted for 14,329 thousand rubles, or 25.46% of total accounts payable (56,285 thousand rubles).

2.3.2 Issuer s credit history

Type of liability	Name of the creditor	Principal amount	Term of credit (loan) / maturity date	Overdue liabilities, including overdue principal and/or interest, number of days of delay
Short-term credit, USD	Alfa-Bank OAO	2,920,000	17.04.2003	0
Short-term credit, USD	Alfa-Bank OAO	974,000	07.05.2003	0
Long-term credit, USD	UBS LUXEMBURG SA	150,000,000	2008	0
Bonded debt, thousand RUR	Issue organizer Troyka-Dialog Investment Company ZAO, International Moscow Bank paying agent	1,500,000	2006	0
Short-term credit, thousand RUR	Raiffeisenbank Austria ZAO	110 000	01.06.2005	0

2.3.3 Issuer s obligations from security granted to third parties

Agreements on granted sureties	Date of agreement	Counter-party	Amount of agreement	Currency of agreement	Sum in thousand rubles as at 01.07.05
06/02-2005	***18.02.2005***	***Dairy OAO, Timashevsk***	***1 415 998.82***	***Euros***	***44 741***
P/43	***14.05.2002***	***Dairy OAO, Timashevsk***	***2 949 180***	***Euros***	***45 818***
43/05	***18.05.2004***	***Dairy OAO, Timashevsk***	***369 791***	***Euros***	***6 383***
90/10	***01.10.2004***	***Labinov V.V.***	***58 000***	***USD***	***1 324***
P/45	***05.06.2002***	***LMK OAO***	***2 348 476***	***Euros***	***36 485***
P/49	***28.10.2002***	***Siberian Milk OAO***	***2 510 160***	***Euros***	***43 331***
35/04	***21.04.2004***	***Baby Foods Dairy Plant, OAO***	***691 372***	***Euros***	***11 935***
Total					***190 017***

2.3.4 Other Issuer s obligations

There are no other Issuer s obligations.

2.4 Objectives of the issue and spheres where funds received from securities issue shall be used

No securities have been issued and no funds have been attracted in the reporting period.

2.5. Risks associated with acquisition of placed securities (securities to be placed)

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

Due to the specifics of the Issuer s principal business, its risks, which might lead to reduction of the securities price, are conditional, to a greater extent, on the consolidated risks of the companies controlled by the Issuer directly or indirectly. For the purposes of this section the terms Company , our Company shall mean both the Issuer separately, and together with the companies it controls.

2.5.1. Risks Relating to Industry

If we do not continue to be an efficient producer in a highly competitive environment, particularly in relation to purchases of our packaging and raw materials, or an effective advertiser in a highly inflationary media environment, our results of operations will suffer.

Our success depends, in part, on our continued ability to be an efficient producer in a highly competitive industry. If wecannot continue to control costs through productivity gains or by eliminating redundant costs resulting from acquisitions, our results of operations will suffer. In particular, price increases and shortages of packaging and raw materials could have a material adverse effect on our results of operations. For example, our results of operations may be affected by the availability and pricing of packaging materials, principally cardboard and plastic containers, and raw materials, principally raw milk and juice concentrate. We are substantially dependent upon one supplier of packaging materials, Tetra Pak, which may make us more vulnerable to changes in global supply and demand and their effect on price and availability of these materials. Additionally, weather conditions and other factors beyond our control significantly influence the price and availability of our raw materials. A number of our raw materials, such as juice concentrate and sugar, are international commodities and are subject to international price fluctuations, and we experienced significant increases in raw milk prices during 2003 and 2004. Our success also depends on our continued ability to be an effective advertiser in a market where media inflation on leading national television channels exceeded 37% in 2004. A substantial increase in the prices of any of the foregoing, which we may not be able to pass on to customers through price increases, or a protracted interruption in supply with respect to packaging or raw materials, could have a material adverse effect on our financial condition and results of operations.

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

The food industry s growth potential is constrained by population growth, which has been falling in Russia, and growth in personal income. Our success depends, in part, on our ability to expand our business faster than populations are growing in the markets that we serve, or notwithstanding declines in the populations in those markets. One way to achieve that growth is to enhance our portfolio by adding products and greater production capacity in faster growing and more profitable categories. In the past, we have experienced delays in the installation of new production equipment due to internal technical integration issues as well as delays by vendors and other third-party suppliers in installing and testing new production lines. Future delays in new equipment installation could inhibit our ability to add products and expand our production capacity, cause our output volume to suffer and, consequently, have a material adverse effect on our results of operations.

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

We sell our products either directly to retailers, including supermarkets, grocery shops and restaurants, or to independent distributors for resale to retail outlets. We expect sales to retailers and independent distributors to continue to represent a significant portion of our revenues. Our operations and distribution costs could be affected by the increasing consolidation of these entities, particularly as these customers become more sophisticated and attempt to force lower pricing and increased promotional programs. For example, in the spring of 2001, several Russian supermarket chains formed a loose alliance which publicly announced its intention not to purchase our products. Although these supermarket chains now purchase our products, they may not continue to do so, and they or other supermarket chains may attempt a similar consolidation of market power in the future. In addition, we ceased delivery of our dairy products to Seventh Continent, a Moscow supermarket chain, during January and February of 2005 due to protracted supply contract negotiations, although sales and deliveries were resumed in March. Certain retailers also seek price discounts from manufacturers. Additionally, a number of large Western retailers, such as the Turkish retailer Ramenka, the German retailer Metro and the French retailer Auchan, have already opened stores in the Moscow region, and we expect that the presence of these retailers will increase price competition.

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

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

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

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

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

Increased competition and consumer preference for low-price juice products primarily in the regions outside of Moscow and St. Petersburg have caused our sales volumes in our juice segment to decline, which have adversely affected and may continue to adversely affect our results of operations.

Although juice consumption in Russia is increasing, our juice product sales volume decreased in 2003 and 2004 due to vigorous market competition from domestic producers, increased activity by foreign producers and the revision of our distribution system. In addition, consumer preference for low-price juice products primarily in the regions outside of Moscow and St. Petersburg where per capita household incomes are generally lower, put pressure on juice prices in 2002, 2003 and 2004 and resulted in gross profit margins remaining relatively flat. A continuation of these trends may cause a decline in our juice prices, profit margins and sales volumes and, consequently, materially adversely affect our results of operations.

Increasing tariffs and restructuring in the transport sector could have a materially adverse effect on our business.

Railway transportation is one of our principal means of transporting supplies and juice and water products to our facilities and customers, accounting for approximately 63% of our juice transportation expenses in 2004. Currently, the Russian government sets rail tariffs and may further increase these tariffs as it did in 2003 and 2004. Railroad tariffs increased by approximately 40% in ruble terms in 2003 and an additional 32% in ruble terms in 2004, and further increases are expected throughout 2005.

In 2003, legislation was enacted which sets out the framework for the reorganization of the Russian Railways Ministry into OAO Russian Railroads, a joint-stock company, to be followed by the eventual privatization of certain of its functions by 2007. It is currently unclear whether this reorganization and privatization will be completed in accordance with the timetable contemplated in the legislation or at all. If the privatization of Russian Railroads or other factors result in increased railway transport costs, thereby decreasing our profit margins, our results of operations could be materially adversely affected.

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

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

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

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

In addition, raw milk prices increased in ruble terms by approximately 11% in 2003 and 17% in 2004. The price increases are due, in part, to the raw milk shortages caused by the ongoing decline of dairy cattle in Russia. These increases adversely affected our dairy product profit margins in 2003 and 2004, and continued increases in raw milk prices could further reduce our profitability. The shortage of high quality raw milk, coupled with the raw milk price increases, may also limit our ability to expand our production of high margin value-added dairy products.

New regulations impacting food producers in Russia could cause us to incur substantial additional compliance costs or administrative penalties which may have a material adverse effect on our business and financial results.

The regulation of food production and quality has been undergoing constant reform in the past decade and frequently changes. In particular, the Federal Law on Technical Regulation, a framework law which came into effect in July 2003, has significantly impacted the regulation of our industry, and compliance may require substantial expenditures by us. Under this law, various governmental agencies have been implementing new regulations in recent years, causing food producers to alter their product recipes, production processes and labeling. We are sometimes unable to immediately comply with new regulations upon their implementation, though in such cases, we endeavor to seek extensions for compliance from the relevant regulatory bodies. For example, a new state standard on dairy products came into effect on January 1, 2004. This standard sets forth the basic requirements for the labeling of dairy products manufactured in Russia, and its terms required us to change the names, formulas and packaging of some of our products. As we were unable to fully comply with the new requirements as of January 1, 2004, we received an extension from the regulatory authorities until the end of 2004, and are currently in compliance. However, our failure to obtain the required extensions in relation to other regulations in the future or to otherwise comply with the new regulations could result in administrative penalties and have a material adverse effect on our business and financial results.

Increased domestic production by our foreign competitors could reduce our competitive advantages against them, which would have a material adverse effect on our market share and results of operations.

A number of our foreign competitors, such as Danone, Parmalat, Campina, Ehrmann, Onken, and Pascuale, have begun to invest in domestic production facilities, while others, such as Coca-Cola, have acquired domestic producers. These investments and acquisitions reduce the competitive advantages that we have over foreign competitors without domestic production capability. A continuation of this trend may result in increased competition for qualified personnel and higher labor costs, and would have a material adverse effect on our business and results of operations.

2.5.2. Political risks

Political and governmental instability could adversely affect the value of our securities.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. Moreover, the composition of the Russian government, the prime minister and the other heads of federal ministries has, at times, been highly unstable. For example, six different prime ministers headed governments between March 1998 and May 2000. On December 31, 1999, President Yeltsin unexpectedly resigned. Vladimir Putin was subsequently elected president on March 26, 2000 and re-elected for a second term on March 14, 2004. Throughout his first term in office, President Putin has maintained governmental stability and even accelerated the reform process. In February 2004, President Putin dismissed his entire cabinet, including the prime minister. This was followed on March 12, 2004 by President Putin s announcement of a far-reaching restructuring of the Russian government, with the stated aim of making the government more transparent and efficient. The changes included, for example, reducing the number of ministries from 30 to 14 and dividing the government into three levels: ministries, services and agencies. In addition to the restructuring of the Russian federal government, the Russian parliament adopted legislation whereby the executives of sub-federal political units will no longer be directly elected by the population and will instead be nominated by the President of the Russian Federation and confirmed by the legislature of the sub-federal political unit. Further, President Putin has proposed to eliminate individual races in State Duma elections, so that voters would only cast ballots for political parties.

Future changes in government, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could also disrupt or reverse economic and regulatory reforms. Any disruption or reversal of the reform policies, recurrence of political or governmental instability or occurrence of conflicts with powerful economic groups could have a material adverse effect on our business and the value of investments in Russia, and the value of our securities could decline.

Conflict between central and regional authorities and other conflicts could create an uncertain operating environment, hindering our long-term planning ability and could negatively affect the value of investments in Russia.

The Russian Federation is a federation of 88 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatization, securities, corporate legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders our long-term planning efforts and creates uncertainties in our operating environment, both of which may prevent us from effectively and efficiently implementing our business strategy.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, such as the continuing conflict in Chechnya, which has brought normal economic activity within Chechnya to a halt and disrupted the economies of neighboring regions. Various armed groups in Chechnya have regularly engaged in guerrilla attacks in that area, and recently, other parts of Russia have experienced violence related to the Chechen conflict. Violence and attacks relating to this conflict have also spread to other parts of Russia, and several terrorist attacks have been carried out by Chechen terrorists throughout Russia, including in Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures are likely to cause disruptions to domestic commerce and exports from Russia, and could materially adversely affect our business and the value of investments in Russia, including the value of our securities.

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

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

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;

growth of a black and grey market economy;

pervasive capital flight;

high levels of corruption and the penetration of organized crime into the economy;

significant increases in unemployment and underemployment; and

the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. In particular, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its ruble-denominated securities, the Central Bank of Russia stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments.

These actions resulted in an immediate and severe devaluation of the ruble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets.

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

Recently, the Russian economy has experienced positive trends, such as the increase in the gross domestic product, a relatively stable ruble, and a reduced rate of inflation; however, these trends may not continue or may be abruptly reversed.

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

The physical infrastructure in Russia largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are the rail and road networks; power generation and transmission; communication systems; and building stock. For instance, in May 2005, a fire and explosion in one of the Moscow power substations built in 1963 caused a major outage in a large section of Moscow and some surrounding regions, which resulted in a halt of half of the Moscow metro lines leaving thousands of people stranded underground for several hours. The blackout also hit the ground electric transport, led to road traffic accidents and massive traffic congestion, disrupted electricity and water supply in office and residential buildings and affected mobile communications. The trading on exchanges and the operation of many stores and markets were also halted. Road conditions throughout Russia are poor, with many roads not meeting minimum quality requirements. The Russian government is actively considering plans to reorganize the nation s rail, electricity and telephone systems. Any such reorganization may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

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

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

Russia s economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia, and Russian businesses could face severe liquidity constraints, further materially adversely affecting the Russian economy. Additionally, because Russia produces and exports large amounts of natural gas and oil, the Russian economy is especially vulnerable to the price of natural gas and oil on the world markets and a decline in the price of natural gas and oil could slow or disrupt the Russian economy. Recent military conflicts and international terrorist activity have also significantly impacted oil and gas prices, and pose additional risks to the Russian economy.

Crime, corruption and negative publicity could disrupt our ability to conduct our business and could materially adversely affect our business, financial condition and results of operations or prospects.

The political and economic changes in Russia in recent years have resulted in significant dislocations of authority. The local and international press have reported that significant criminal activity, including organized crime, has arisen, particularly in large metropolitan centers. Property crime in large cities has increased substantially. In addition, the local press and international press have reported high levels of official corruption in the locations where we conduct our business, including the bribing of officials by competitors and others for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of certain government officials or certain companies or individuals. Additionally, published reports indicate that a significant number of Russian media regularly publish disparaging articles in return for payment. The depredations of organized or other crime, demands of corrupt officials, claims that we have been involved in official corruption or engaged in improper transactions or slanted articles, press speculation and negative publicity could disrupt our ability to conduct our business and could materially adversely affect our business, financial condition and results of operations or prospects.

Social instability could increase support for renewed centralized authority, nationalism or violence and thus have a material adverse effect on our ability to conduct our business effectively.

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

2.5.3. Risks Relating to Our Financial Condition

Inflation could increase our costs and decrease our operating margins.

The Russian economy has been characterized by high rates of inflation of 11.7%, 12.0% and 15.1% in 2004, 2003 and 2002, respectively. In both 2004 and 2003, the inflation rate, combined with the nominal appreciation of the ruble, resulted in the appreciation of the ruble against the U.S. dollar in real terms. As we tend to experience inflation-driven increases in certain of our costs, including salaries and rents, which are sensitive to rises in the general price level in Russia, our costs in U.S. dollar terms will rise. In this situation, due to competitive pressures, we may not be able to raise the prices we charge for our products and services sufficiently to preserve operating margins. Accordingly, high rates of inflation in Russia could increase our costs and decrease our operating margins.

Servicing and refinancing our indebtedness will require a significant amount of cash. Our ability to generate cash or obtain financing depends on many factors beyond our control.

We have a substantial amount of outstanding indebtedness, primarily consisting of the obligations we entered into in connection with our $150 million loan participation notes due

2008, our ruble bonds, bank loans and obligations under equipment financing. As at December 31, 2004, our consolidated total debt was approximately $283.2 million, of which $50.0 million was secured by equipment or inventory.

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

We may not be able to generate sufficient cash flow or access international capital markets or incur additional indebtedness to enable us to service or repay our indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including our $150 million loan participation notes due 2008, on or before maturity, sell assets, reduce or delay capital expenditures or seek additional capital. Refinancing or additional financing may not be available on commercially reasonable terms, and we may not be able to sell our assets or, if sold, the proceeds therefrom may not be sufficient to meet our debt service obligations. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance debt on commercially reasonable terms, would have a material adverse effect on our business, financial condition, results of operations and prospects.

Covenants in our debt agreements restrict our ability to borrow, invest and engage in various activities, which could impair our ability to expand or finance our future operations.

Our short-term and long-term debt agreements, including the loan agreement relating to our $150 million loan participation notes due 2008, contain covenants that impose operating and financial restrictions on us and our subsidiaries. These restrictions significantly limit, and in some cases prohibit, among other things, our and certain of our subsidiaries ability to incur additional debt, provide guarantees, create liens on assets or enter into business combinations. Failure to comply with these restrictions would constitute a default under our debt agreements, including the loan agreement relating to our $150 million loan participation notes due 2008, and any of our other senior debt containing cross-default provisions could become immediately due and payable, which would materially adversely affect our business, financial conditions and results of operations. In addition, some of our debt agreements contain provisions which permit our lenders to require us to repay our debt to them in the event of deterioration in our financial condition.

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

The terms of the loan agreement relating to our $150 million loan participation notes due 2008 and some of our other debt agreements require that we prepay the outstanding debt upon the occurrence of certain change of control events. A change of control event will generally be triggered at such time as any person or entity (excluding several of our major shareholders acting individually or as a group): (i) is or becomes interested, directly or indirectly, in the aggregate of more than 50% of our capital stock with voting power, or (ii) has or acquires the right to appoint or remove a majority of our Board of Directors, or (iii) has or acquires control of a majority of our voting rights, in each case, in circumstances where, solely as a result of any such event as specified by the relevant rating agencies, a rating decline (as further described in the loan agreement relating to our $150 million loan participation notes due 2008) would result.

If a change in control occurs, and we are required to prepay our debt, such event could have a material adverse effect on our business, financial condition, results of operations and business prospects. It is also possible that we will not have sufficient funds at the time of the change of control to satisfy such prepayment obligations, or to refinance the debt on commercially reasonable terms.

Devaluation of the ruble against the U.S. dollar could increase our costs and reduce our revenues.

Until recently, the ruble has fluctuated dramatically against the U.S. dollar, in some instances falling in value. A significant portion of our costs and expenditures, including costs of packaging, juice concentrate and certain other raw materials, as well as capital expenditures and borrowings (including our $150 million loan participation notes due 2008), are either denominated in, or closely linked to, the U.S. dollar, while substantially all of our revenues are denominated in rubles. As a result, the devaluation of the ruble against the U.S. dollar can adversely affect us by increasing our costs in ruble terms. Additionally, if the ruble declines against the U.S. dollar and price increases cannot keep pace, we could have difficulty repaying or refinancing our U.S. dollar-denominated indebtedness, including our notes. The devaluation of the ruble also results in losses in the value of ruble-denominated assets, such as ruble deposits.

Russian currency control regulations hinder our ability to conduct our business.

The Central Bank has from time to time imposed various currency control regulations in attempts to control the U.S. dollar/ruble exchange rate, and may take further actions in the future. Furthermore, the government and the Central Bank may impose additional requirements on cash inflows and outflows into and out of Russia or on the use of foreign currency in Russia, which could prevent us from carrying on necessary business transactions or from successfully implementing our business strategy.

A new framework law on exchange controls took effect on June 18, 2004. This law empowers the government and the Central Bank of Russia to further regulate and restrict currency control matters, including operations involving foreign securities and foreign currency borrowings by Russian companies. The new law also abolishes the need for companies to obtain transaction-specific licenses from the Central Bank of Russia, envisaging instead the implementation of generally applicable restrictions on currency operations. As the evolving regulatory regime is new and untested, it is unclear whether it will be more or less restrictive than the prior laws and regulations it has replaced.

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

Currency regulations established by the Central Bank of Russia restrict investments by Russian companies outside Russia and in most hard-currency-denominated instruments in Russia, and there are only a limited number of ruble-denominated instruments in which we may invest our excess cash. Additionally, subject to certain exceptions, Russian companies must repatriate 100% of offshore foreign currency earnings to Russia and convert 10% of those earnings into rubles within seven days of receipt, although Russian legislation allows the Central Bank of Russia to decrease this conversion requirement or increase it up to 30%. Any balances maintained in rubles will give rise to losses if the ruble devalues against the U.S. dollar.

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

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

In addition, we are limited in our ability to control the conduct of our raw materials and equipment suppliers, including their adherence to contract delivery terms and their compliance with applicable legislation, such as currency, customs and environmental regulations and laws relating to the use of food additives and genetically modified food products. Failure of our suppliers to adhere to the terms of our contracts with them or the law may negatively affect our reputation and our business.

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

Our major capital expenditures are generally denominated and payable in various foreign currencies, including U.S. dollars and euro. However, the market in Russia for the conversion of rubles into foreign currencies is limited. The scarcity of foreign currencies may tend to inflate their values relative to the ruble, and such a market may not continue to exist which could increase our costs when making payments in foreign currencies to suppliers and creditors.

Additionally, any delay or other difficulty in converting rubles into a foreign currency to make a payment or delay or restriction in the transfer of foreign currency could limit our ability to meet our payment and debt obligations, which could result in the loss of suppliers, acceleration of debt obligations and cross-defaults and, consequently, have a material adverse effect on our business, financial condition and results of operations.

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

We have used various initiatives to reduce our tax burden. As described below, several of our tax initiatives have recently been challenged by the Russian tax authorities. There have also been press reports of instances in which the Russian tax authorities have successfully challenged structures similar to those we have used. If any of our initiatives are successfully challenged by the Russian tax authorities, we would face significant losses associated with the assessed amount of tax underpaid and related interest and penalties. These losses could have a material impact on our financial condition and results of operations

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

Our juice producing subsidiaries have benefited from small enterprise tax legislation. If we had not taken advantage of this benefit in 2002, 2003 and 2004, our tax expenses would have increased by $4.9 million, $3.0 million and $1.2 million, respectively. This tax benefit was eliminated as of January 1, 2002. However, even under the amended legislation, our small enterprises that were formed prior to January 1, 2002 were able to continue to use this benefit for two years from the date on which they were formed, and in the third and fourth years after they were formed, income tax will be levied at a rate of 25% and 50% of the income tax rate, respectively. This change in legislation could materially adversely affect our results of operations in the future when we are no longer able to take advantage of this tax benefit.

We are only able to conduct banking transactions with a limited number of creditworthy Russian banks, as the Russian banking system remains underdeveloped, and another banking crisis could place severe liquidity constraints on our business, materially adversely affecting our business, financial position and results of operations.

Russia s banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The August 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans. Although the Central Bank of Russia has the mandate and authority to suspend banking licenses of insolvent banks, many insolvent banks still operate. Most Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still lags far behind internationally accepted norms. The weak banking infrastructure in Russia also exposes us to an increased risk of unauthorized transactions or charges on our accounts due to bank error or actions by computer hackers.

The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit profile of the loan portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns. In addition, the Central Bank of Russia has recently revoked the licenses of certain Russian banks, which resulted in market rumors about additional bank closures and many depositors withdrawing their savings. If a banking crisis were to occur, Russian companies would be subject to severe liquidity constraints due to the limited supply of domestic funding sources and the withdrawal of foreign funding sources that would occur during such a crisis. In addition, another banking crisis or the bankruptcy or insolvency of the banks from which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial conditions and results of operations.

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may impact our business results of operations.

Russian transfer pricing rules entered into force in 1999, giving Russian tax authorities the right to control prices for transactions between related entities and certain other types of transactions between independent parties, such as foreign trade transactions or transactions with significant price fluctuations. The Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and arbitration courts and their use in politically motivated investigations and prosecutions. We believe that the prices used by our group are market prices and, therefore, comply with the requirements of Russian tax law on transfer pricing. However, due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge our prices and propose adjustments. If such price adjustments are upheld by the Russian arbitration courts and implemented, our results of operations could be materially adversely affected. In addition, we could face significant losses associated with the assessed amount of prior tax underpaid and related interest and penalties, which would have a material adverse effect on our financial condition and results of operations.

2.5.4. Risks Relating to the Russian Legal System and Russian Legislation

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

Russia is still developing the legal framework required to support a market economy. The following risks relating to the Russian legal system create uncertainties with respect to the legal and business decisions that we make, many of which do not exist in countries with more developed market economies:

- inconsistencies between and among laws, the Constitution, Presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations;
- the lack of judicial and administrative guidance on interpreting legislation;
- the relative inexperience of judges and courts in interpreting legislation;
- lack of independent judiciary;
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions such as suspension or termination of our licenses; and
- poorly developed bankruptcy procedures that are subject to abuse.

Furthermore, several fundamental laws have only recently become effective. The recent nature of much of Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt and results in ambiguities, inconsistencies and anomalies. In addition, Russian legislation often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability to enforce our rights under our permits and under our contracts, or to defend ourselves against claims by others. We cannot assure you that regulators, judicial authorities or third parties will not challenge our internal procedures and by-laws or our compliance with applicable laws, decrees and regulations.

Developing corporate and securities laws and regulations in Russia may limit our ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, whereas laws relating to anti-fraud safeguards, insider trading restrictions and fiduciary duties are rudimentary. In addition, the

Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

- the Federal Service for the Financial Markets;
- the Ministry of Finance;
- the Federal Antimonopoly Service;
- the Central Bank of Russia; and
- various professional self-regulatory organizations.

The regulations of these various authorities are not always coordinated and may be contradictory.

In addition, Russian corporate and securities rules and regulations can change rapidly, which may materially adversely affect our ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to our company. As a result, we may be subject to fines or other enforcement measures despite our best efforts at compliance.

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

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

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

Selective or arbitrary government action may have a material adverse effect on our business, financial condition and results of operations or prospects.

We operate in an uncertain regulatory environment. Governmental authorities in Russia have a high degree of discretion and, at times, act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is inconsistent with legislation or influenced by political or commercial considerations. Selective or arbitrary governmental actions have reportedly included the denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used ordinary defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions, often for political purposes. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Standard & Poor s has expressed concerns that Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups. In this environment, our competitors may receive preferential treatment from the government, potentially giving them a competitive advantage over us.

In addition, in 2003 and 2004, the Ministry for Taxes and Levies aggressively brought tax evasion claims on certain Russian companies use of tax-optimization schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. Selective or arbitrary government action, if directed at us, could have a material adverse effect on our business, financial condition and results of operations or prospects.

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

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

this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and

the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary s debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. This is the case no matter how the effective parent s ability to determine decisions of the effective subsidiary arises. For example, this liability could arise through

ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary s losses from the effective parent which caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, we could be liable in some cases for the debts of our consolidated subsidiaries. This liability could have a material adverse effect on our business, results of operations and financial condition.

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

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

a reorganization;

the approval by shareholders of a major transaction, which, in general terms, is a transaction involving property worth more than 25% of the book value of our assets calculated according to the Russian accounting standards, regardless of whether the transaction is actually consummated; and

the amendment of our charter in a manner that limits shareholder rights.

Our obligation to purchase shares in these circumstances, which is limited to 10% of our net assets calculated according to Russian accounting standards, at the time the matter at issue is voted upon, could have a material adverse effect on our business, results of operations and financial condition.

Because there is little minority shareholder protection in Russia, your ability to bring, or recover in, an action against us will be limited.

In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. While these protections are similar to the types of protections available to minority shareholders in U.S. corporations, in practice, corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices. Shareholder meetings have been irregularly conducted, and shareholder resolutions have not always been respected by management. Shareholders of some companies also suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

In addition, the supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a shareholders meeting. Thus, controlling shareholders owning slightly less than 75% of outstanding shares of a company may have a 75% or more

voting power if certain minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a shareholders meeting, they are in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. It is possible that our majority shareholders and our management in the future may not run us and our subsidiaries for the benefit of minority shareholders, and this could materially and adversely affect the value of our securities.

Disclosure and reporting requirements, as well as anti-fraud legislation, have only recently been enacted in Russia. Most Russian companies and managers are not accustomed to restrictions on their activities arising from these requirements. The concept of fiduciary duties of management or directors to their companies and shareholders is also relatively new and is not well developed. Violations of disclosure and reporting requirements or breaches of fiduciary duties to us and our subsidiaries or to our shareholders could materially adversely affect the value of our securities.

While the Federal Law on Joint Stock Companies provides that shareholders owning not less than 1% of the company s stock may bring an action for damages on behalf of the company, Russian courts to date do not have much experience with respect to such lawsuits. Russian law does not contemplate class action litigation. Accordingly, your ability to pursue legal redress against us may be limited, reducing the protections available to you as a holder of our securities.

Weaknesses and changes in the Russian tax system could materially adversely affect an investment in our securities.

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

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

Tax reform commenced in 1999 with the introduction of Part One of the Tax Code, which sets general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes such as corporate income tax, VAT and property tax with new chapters of the Tax Code. For instance, new chapters of the Tax Code on VAT, unified social tax and personal income tax came into force January 1, 2001; the profits tax and mineral extraction tax chapters came into force January 1, 2002; and the newly introduced corporate property tax chapter of the Tax Code came into force on January 1, 2004.

In practice, the Russian tax authorities often have their own interpretation of the tax laws that rarely favors taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Furthermore, following the recent reorganization of the Russian government, the authority for tax regulation is being transferred to the Russian Ministry of Finance, which may lead to further changes in the interpretation of the tax laws.

Tax declarations, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayers are subject to inspection for a period of three calendar years of their activities which immediately preceded the year in which the audit is carried out. As previous audits do not exclude subsequent claims relating to the audited period, the statute of limitations is not entirely effective. In addition, in some instances, new tax regulations have been given retroactive effect.

Moreover, financial statements of Russian companies are not consolidated for tax purposes. Therefore, each of our Russian entities pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in our group. In addition, pursuant to legislation that entered into force on January 1, 2002, payments of intercompany dividends between two Russian entities are subject to a withholding tax of 6% once they are paid out of profits, though this tax does not apply to dividends once they have already been taxed.

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations, including management resources. In addition to our substantial tax burden, these risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance, and could adversely affect our business and the value of our securities.

2.5.5. Risks relating to the Issuer s Business

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

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

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

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

We cannot assure you of the successful integration of existing or newly acquired businesses. If we fail to integrate our businesses successfully, our rate of expansion could slow and our results of operations and financial condition could be materially adversely affected.

We have grown through numerous acquisitions and are in the process of integrating and restructuring some of our businesses. We may make additional acquisitions in the future. Achieving the benefits of our acquisitions and our restructuring efforts will depend, in part, on integrating our businesses in an efficient manner. We cannot assure you that such integration will happen or that it will happen in a timely manner.

The integration of our businesses, as well as of any businesses we may acquire in the future, requires significant time and effort from our senior management, who are also responsible for managing our existing operations. Integration of our businesses may be difficult, as our culture may differ from the cultures of the businesses we acquire or consolidate, unpopular cost cutting measures may be required and control over cash flows may be difficult to establish. Any difficulties encountered in the transition and integration process could have a material adverse effect on our results of operations. We cannot assure you that we will be successful in realizing any of the anticipated benefits of the companies that we are now in the process of integrating or that we may acquire in the future. If we do not realize these benefits, our results of operations could be materially adversely affected.

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

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

Failure to comply with existing laws and regulations or the findings of government inspections, or increased governmental regulation of our operations, could result in substantial additional compliance costs or various sanctions which could materially adversely affect our business, financial condition, results of operations and prospects.

Our operations and properties are subject to regulation by various government entities and agencies, as well as to ongoing compliance with existing laws, regulations and standards. As a producer of food products, our operations are subject to quality, health and safety, production, packaging, quality, labeling and distribution standards. The operations of our production and distribution facilities are also subject to various environmental laws and workplace regulations. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of permits and in monitoring compliance with the terms thereof. Russian authorities have the right to, and frequently do, conduct periodic inspections of operations and properties of our group of companies throughout the year. Any such future inspections may conclude that we or our subsidiaries have violated laws, decrees or regulations, and we may be unable to refute such conclusions or remedy the violations. Our failure to comply with existing laws and regulations or the findings of government inspections may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of our permits, or in requirements that we cease certain of our business activities, or in criminal and administrative penalties applicable to our officers. Any such decisions, requirements or sanctions, or any increase in governmental regulation of our operations, could increase our costs and materially adversely affect our business, financial condition, results of operations and prospects.

We believe that our current legal and environmental compliance programs adequately address these concerns and that we are in substantial compliance with applicable laws and regulations. However, as the regulations that apply to our business are constantly changing, we are sometimes unable to immediately comply with new regulations upon their implementation. Compliance with, or any violation of, current and future laws or regulations could require material expenditures by us or otherwise have a material adverse effect on our business or financial results.

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

Difficulty in obtaining adequate managerial and operational resources may restrict our ability to expand our operations successfully.

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

We will need to continue to improve our operational and financial systems and managerial controls and procedures to keep pace with our growth. We will also have to maintain close coordination among our logistical, technical, accounting, finance, marketing and sales personnel. Management of growth will require, among other things:

- the ability to integrate new acquisitions into our operations;
- continued development of financial and management systems controls and information technology systems;
- implementation of adequate internal control over financial reporting and disclosure controls and procedures;
- increased marketing activities;
- hiring and training of new personnel; and
- coordination among our logistical, technical, accounting, finance, marketing and sales personnel.

Our success will depend, in part, on our ability to continue to attract, retain and motivate qualified personnel. Competition in Russia, and in the other countries where we operate, for personnel with relevant expertise is intense, due to the limited number of qualified individuals. Although we attempt to structure our compensation packages in a manner consistent with evolving standards of the Russian labor market, we are not insured against damage that may be incurred in case of the loss or dismissal of our key personnel. Departures of senior management may be disruptive to our business and our success will depend, in part, on continuity in our senior management team. For example, we experienced significant changes in our senior management during the first half of 2005, including a change in our Chief Financial Officer and other senior managers.

Our inability to successfully manage our growth and personnel needs could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

Twenty-four of our subsidiaries have negative net assets. These subsidiaries, taken together, are material to our operations. We have not taken any steps to remedy this situation because we believe that, as long as these subsidiaries continue to fulfill their obligations, the risk of their liquidation is minimal. We are also in the process of integrating the newly acquired businesses and restructuring our subsidiaries, which we expect will reduce the number of subsidiaries with negative net equity. While we understand that a Moscow court liquidated a company pursuant to this legislation in 2002, we are not aware of any situation where a Russian company has been liquidated pursuant to this legislation if it has met all of its obligations, as each of these subsidiaries has. Therefore, we believe that this risk is remote and have not included it as a contingency in the notes to our financial statements which appear elsewhere in this document. However, if involuntary liquidation were to occur, we would be forced to reorganize the operations we currently conduct through these subsidiaries.

III DETAILED INFORMATION ON THE ISSUER

3.1. Issuer s background and development

3.1.1. Data on Issuer s proprietary name

Issuer s full proprietary name.

Open Joint Stock Company Wimm-Bill-Dann Foods

Abbreviated name.

WBD Foods

Data on Issuer s name and organizational & legal changes.

Limited liability Company Wimm-Bill-Dann Foods

WBD Foods

Introduced: ***April 16, 2001***

The present name introduced: ***May 31, 2001***

3.1.2. Data on Issuer s state registration record

Issuer s state registration date: ***May 31, 2001***

State registration certificate No. (Or other document verifying Issuer s state registration) ***P-15968.16***

Organization that performed Issuer s state registration: State Registration Chamber attached to Ministry of Justice of the Russian Federation, Moscow Registration Chamber

OGRN **1037700236738**

The date of entry into the Unified State Register of Legal Entities: 19.02.2003.

The name of the registrar: Inderdistrict Inspectorate of the Ministry of Taxes and Levies No. 39, Moscow

3.1.3. Data on Issuer s establishment and development.

Term of Issuer s existence: **since 31.05.2003**

Issuer is established for an indefinite term

History of the Issuer s Foundation and Activities.

Open Joint-Stock Company Wimm-Bill-Dann Foods (hereinafter referred to as the Issuer or the Company) was registered on May 31, 2001. The purpose of its creation was to consolidate several production and trading companies, whose shares had been privately owned by a group of persons and were transferred to the Company by including them in authorized capital during its creation in 2001. Control over and management of the WBD Group are the Issuer s principal areas of activity. In keeping with Article 4 of the Issuer s Charter, The main purpose of the Company is to fully satisfy the demand of legal entities and private persons in products (works, services), produced (performed, provided) in accordance with its charter activity, and to receive profits. On February 14, 2002, OJSC Wimm-Bill-Dann Foods completed the public issue of and registered common shares represented by American depositary receipts (ADR) at the New York Stock Exchange under the WBD symbol. Each ADR represents one basic common share of the Company.

The story of WBD Group began in 1992, when the first company owned by a group of persons rented a production line at the Lianozovo Dairy and purchased the first lot of juice concentrates and packaging materials. November 25, 1992 WBD Group produced its first

pack of juice under the Wimm-Bill-Dann brand. This name had been chosen in order to attract consumers, who at that point preferred imported products due to their novelty to the market, and also because of the prevailing belief in the higher quality of imported goods. From the very first appearance on the market the name Wimm-Bill-Dann turned into a brand, known to and popular among the majority of Russian consumers.

3.1.4. Contact data

Location: ***109028, Moscow, Yauzsky Boulevard, 16/15, office 306***

Tel.: ***(095) 105-5805***
Fax: ***(095) 733-9736***

E-mail: **KolesnikovIM@wbd.ru**

Internet page(s) displaying information contained in this quarterly report: www.wbd.ru

3.1.5. Taxpayer s identification number.

7709342399

3.1.6. Issuer s branches and representative offices

Full proprietary name ***Representative office of Wimm-Bill-Dann Foods OJSC in Beijing.***

Abbreviated name - ***Representative office of WBD Foods in Beijing.***

Location of the representative office ***Chinese Peoples Republic, Beijing***

The decision on establishing of the representative office was adopted by the Issuer s Board of Directors on June 16, 2004 (Minutes No.19-07 as of 19.07.2004).

The representative office head Song Bin Bin

The term of authority October 8, 2004 October 8, 2007

The changes in the amount of Issuer s brances and representative offices didn t take place within the reporting quarter.

3.2. Description of Issuer s primary areas of operations

3.2.1. Issuer s branch/sectorial affiliation.

OKWED Codes:

15.98, 15.51.13, 15511, 51.34.1, 51.38.22, 74.13.1, 15.32, 55.51, 52.25.2, 15.88, 22.13, 74.14, 74.84.

3.2.2. Issuer s primary activity

Food industry has gained maximum advantages as a result of devaluation of the ruble in 1998 and steady growth of the population s real earnings in the last three years. Besides, the increasing flow of direct investment in the industry has led to a better quality of Russian-made products and their higher competitiveness. Regardless of the rising rate of the ruble in real terms, the share of imported goods in the consumption structure is about 3%. Thus competition in food industry is mainly centered around Russian brands. As a result, the rate of growth in milk industry was the highest in the Russian economy, amounting to 9.4% in 2001 and 5.4% in 2002. Mindful of the GDP growth by 7.3% in 2003, growth in milk industry amounted to 7%.

There are sufficient grounds to hope that the industry s consolidation, higher quality of products, and expected annual 5-6% rise in real earnings will help food industry remain among the leaders of Russia s economic growth. The flow of foreign investment in the industry that has amounted to two-thirds of the total direct foreign investments in Russia in the last two years also confirms this assumption.

Recent industrial developments show that the consolidation of food industry is likely to bring about the emergence of large domestic producers capable of competing effectively on the market.

On the other hand, one may expect increasing competition on the part of foreign companies such as Danone, Parmalat, Campina and Erhmann that have set up the production of dairy products in Russia. Their market advantages include a large advertisement budget, advanced know-how for new products promotion, and access to cheap financial resources.

Foreign companies have also been expanding the variety of products. In the past their products were basically oriented toward the narrow premium segment (in the upper price bracket) whereas today foreign companies products are also designated for the mass consumer with an average income.

The primary area of the Company s operations is control over and management of a group of its subsidiaries and other affiliated companies specified in this Prospectus, which manufacture and sell milk (dairy) products and juices (drinks, nectars) (hereinafter, in combination with the Company, referred to as the WBD Group). The Issuer also offers licensing agreements on the use of trademarks in its ownership. At that, the Issuer s current and future operations plans are inseparably linked up with those of the WBD Group.

The Wimm-Bill-Dann Group is a major manufacturer of dairy products and juices. Around 74.6% of its revenue comes from the sales of dairy products and the rest 25%, from the sales of juices.

Since its establishment in 1992, the WBD Group has been a leader on the Russian market of dairy and juice-containing products. According to the study conducted by AC Nielsen in nine large Russian cities, including Moscow and St. Petersburg, in 2004, the WBD Group was in the lead on all packaged dairy products markets (with the exception of pasteurized milk): its share on the domestic market of traditional dairy products constituted 36%, and in yogurt and milk desserts sales, 42%. Business Analitika s study carried out in eleven large Russian cities in, 2004, showed that the WBD Group s share in the total domestic sales of juices reached 28% and 34% in Moscow, the main Russian juice consumer. The twenty seven manufacturing facilities of the WBD Group are located in twenty three Russian and CIS cities; its distribution network covers 26 cities in the CIS, Germany, Israel, and Netherlands.

The main objective of the WBD Group is to provide consumers with top-quality food by way of a careful selection of raw materials, use of modern production technologies, and strict quality controls. All its products are manufactured on the basis of the Company s own recipes mindful of domestic consumers preferences and tastes.

1. Forecast of Future Developments on the Dairy Market.

The further consolidation of dairy and juice industry and stronger competition with foreign companies operating in Russia are likely to be major market tendencies. Given below is a segment-based market development forecast.

Milk is one of the most widespread food products in Russia popular among all age groups regardless of location and income. The milk market as a whole will develop steadily with a 5-percent annual consumption growth resulting from a rise in the gross yield and processing of milk in all categories of producers.

In spite of all its advantages, pasteurized milk prevalent on the market has an essential drawback a short shelf life, which makes it less attractive for retail trade. Consequently, the share of this type of milk is expected to go down in favor of sterilized milk. In addition, sterilized milk will be replaced by a new generation of the product without the specific sterilization after-taste, its shelf life over two weeks without cooling or cold storage.

Kefir (fermented milk, a traditional Russian dairy product). It is the most popular dairy product in Russia. Growth in the segment will result from changes in the consumption structure in favor of biokefirs, their production currently organized by local manufacturers. The consumption of traditional kefir is expected to decline

Curds (cottage cheese). The market is stable. An average 2-percent rise will be determined by the development of dairy production in general. Consumers are likely to switch over to curds desserts, which may reduce the consumption of traditional curds.

Rural and small town dwellers are primary consumers of ryazhenka (fermented baked milk) and bonnyclabber. Unlike bonnyclabber, ryazhenka is also popular among the population of large cities. The bonnyclabber segment is expected to shrink due to the reduction of rural population and decrease in the regional consumption of the product.

Cream. The main feature of the market is the reduction of the share of pasteurized cream in the total output because of a short shelf life and the growing share of sterilized cream. Consumption rise will mainly depend on the rate of income growth.

Butter. As a whole, the market development rate is expected to be 2-4% a year. A rise in butter consumption is unlikely to exceed 1-2%, the main growth factor being an increase in the production of margarine and combined varieties of butter, spreads, by 4-5% a year.

Viscous yogurt. It is one of the most dynamic segments of the dairy market. The development and growth of the viscous yogurt market in 2002-2003 resulted from developing local production, Western producers coming out on the market (Pascual and Onken), and a rise in regional consumption. Unique products with new flavors, additives, useful properties, and biocultures were the most dynamic part of the segment.

Potable yogurt. The segment is expected to develop dynamically since the market is still far from saturation, youth and teenagers consumption culture is still taking shape, and consumers are switching over to the product from traditional flavored kefir.

Viscous milk desserts. The market is still underdeveloped. It has more imported products than other markets. Yet, gradually, Russian manufacturers are turning to the production of viscous milk desserts. Underdeveloped consumption culture restrains consumption growth.

Liquid desserts. The market is sufficiently developed. Major consumers include both young people and children as well as adults. The segment will develop as a result of a rise in consumption among teenagers.

Juice and dairy products. It is the most dynamic category of milk products. It has a considerable growth potential due to the population s striving for a healthy life style and consumption of low-fat vitamin-fortified products.

Curds desserts. The segment is developing rapidly given the traditional character of curds. A rise in the segment will mainly depend on the rate of growth of real earnings and consumers switching over from traditional cottage cheese to curds desserts.

Chocolate-coated cheese curds. Consumption culture in large cities is well-developed. Producers regional expansion and a wider variety of the products are expected to provide for the segment s growth.

Condensed milk. It is a traditional food product used in pastry cooking. The market is developed. There are large and well-known producers. Growth can be achieved through a wider variety of products, new flavors, and new types of packaging.

2. ***Forecast of Future Developments on the Juice and Juice-Containing Products Market.***

The market s growth will continue although the rate of growth may slow down. Yet it will remain high enough. Market capacity in 2001 was 1,200 mln. liters a 60-percent rise in comparison with the previous year. In 2002 juice consumption increased by 23% and reached around 1,480 mln. liters. The rise of the market in 2003 constituted approximately 21% (as per RSPS data). As per Business Analitica data the market capacity of domestic and foreign juice production increased in 2004 up to 2020 mln. Liters from 1785 mln. Liters in 2003.

The juice market s growth results from the improvement of the economic situation in Russia, rising per capita income, and emergence of consumption culture with juice regarded as tasty and healthy food. Per capita consumption rose from 8 liters in 2001 to 10 liters in 2002 and to 12 liters in 2003. In large cities (Moscow, St. Petersburg) juice consumption is nearing European standards while Russia s average per capita consumption of juices is twice lower than in Europe.

Stronger competition provoked by major manufacturers considerably expanded capacities was the main market tendency in 2003. Consequently, the juice market is expected to consolidate further in the hands of four principal players that are likely to increase their market share at the expense of small regional producers whose share may go down to 5%.

The Company has the following main types of activity:

Sale of services in respect of granting use of trademarks under license agreements;

Sale of consulting services;

Others.

The sales volume of WBD Foods for the 1 half of 2005 is presented in the following table:

1st half 2005

No	Income	TOTAL, thou. rubles	Share of total revenue, %
1	**Sales income, exclusive of VAT**	**233 889**	**100**
1.1.	including: sale of services in respect of granting use of trademarks	225 283	96.32
1.2.	sale of management consulting services	4 331	1.85
1.3.	software implementation services	585	0.25
1.4.	Leasing of property	3 059	1.31
1.5.	other	631	0.27

3.2.3 Main types of products (works, services)

See also section 3.2.2 of this report

Cost Price of Services Rendered, thou. rubles

No	Expense	1 half 2005
1	Goods	104
2	Depreciation of fixed assets	3026
3	Depreciation of intangible assets	447
4	Travel expenses	719
5	Wages and salaries with deductions	87
6	Informational and consulting services	335
	TOTAL	**4 718**

Issuer s Administrative Expenses, thou. rubles

Expense item	6 months of 2005
Stationary and equipment	970
Routine repairs of buildings and structures	74
Fixed assets depreciation	2 400
Intangible assets depreciation	2 526
Salaries	161 917
Allocations to the Pension fund	11 277
Unified social tax	12 530
Reserves for upcoming leaves	12 389
Payment for initial 2 days of incapacity	80
Social allocations from the sum payable for the initial 2 days of incapacity	15
License agreement registration	9
Office lease	72 552
Other facilities lease	4 464
Information and computing services	58
Expenses associated with vehicles operations	665
Business trip expenses	7 037
Entertainment expenses	2 361
Subscription	260
Personnel training	1 174
Medical insurance of the personnel	1 101
Audit services	11 215
Business cards	49
Notary and legal fees	9 050
Recruitment services	977
Advertising	3 418
Publications	84
Other information and consulting services	3 773
Communication services	3 496
Office equipment maintenance and repair	1 880
DHL	167
Software expenses	480
Trademarks expenses	156
Electronic data processing	654
Valuables storing services	12
Consultations in the form of workshops	634
Organization management expenses (BoD)	849
Carpeted surfaces dry-cleaning	38
Compensation for use of personal vehicles for business purposes	28
Corporate credit rating provision and maintenance	1 237
Snow removal	113
Other	260
Total	**332 429**

3.2.4 Raw materials and Issuer s suppliers

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

A substantial increase in the prices of any of the foregoing, which we may not be able to pass on to customers through price increases, or a protracted interruption in supply with respect to packaging or raw materials, could have a material adverse effect on our financial condition and results of operations.

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

raw milk, which we generally obtain from domestic farmers;

dry milk, which we generally obtain from small domestic producers or import;

bacteria cultures, which we generally import, although we have begun to develop our own cultures;

flavorings and sweeteners, which we generally import;

juice concentrate and juice puree, which we primarily import, but also purchase domestically; and

other ingredients such as frozen fruits and stabilizers.

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

Our purchasing policy is to increase the share of locally produced food raw materials that satisfy our quality standards.

We have focused on developing partnerships with established leaders in the field of local food production, including the leading Russian raw milk, dry milk, fruit and sugar producers. In each region where we require raw milk, we establish direct supply contracts with local individual farmers and collective farms. We have also begun entering into more purchasing arrangements with Russian suppliers of raw materials in the juice sector. We purchase substantially all of our raw materials directly and do not engage in a significant amount of barter transactions. We also purchase certain raw materials such as bacteria cultures, juice concentrate and flavorings from foreign manufacturers due to the unavailability of products of appropriate quality locally. We use quality raw materials, supplied by producers from approximately 25 countries such as Cargill (U.S.), Quatrale (Brazil), Jahncke (Germany), Givaudan (Germany), Hahn (Germany), Wild (Germany), and Firmenich (Switzerland). Our flagship J-7 juice line, the best-selling juice brand in Russia, was created with consulting assistance from Cargill - the world s largest supplier of juice concentrates.

Issuer s major suppliers within 1 half 2005

No	Supplier of works, services	Thousand rubles	%
1	Lianozovo Dairy PJSC	84 646	44.64

3.2.5. Markets for products (works, services) of the Issuer

Wimm-Bill-Dann Foods Open Joint-Stock Company provides consultation services, as well as grants rights to use trademarks it owns through conclusion of license agreement both in the territory of the Russian Federation and in CIS countries: Kirgyzstan and Ukraine.

Through license agreements, the Issuer grants the right to use:

trademarks owned by it;

the RAT and LIASOFT computer programs.

The volume of services rendered by WBD Foods in the 1 half 2005 is presented by region in the following tables:

1 half 2005

No	Country	Volume of services rendered, thou. rubles	% of total volume of services rendered
1	Russia	229 223	98.01
2	CIS countries, total:	4 630	1.98
	including:		
2.1.	Kyrgyzstan	221	0.09
2.2.	Ukraine	4 409	1.89
3.	Orhers	36	0.01
	TOTAL	**233 889**	**100**

3.2.6. Data on Issuer s licences held

Issuer holds no licenses.

3.2.7. Data on Issuer s joint operation

None during reporting period.

3.2.8. Additional requirements to investment funds and insurance companies acting as an issuer

Not applicable.

3.2.9. Additional requirements to issuers, whose main type of activities is extraction of minerals

Not applicable.

3.2.10. Additional requirements to issuers, whose main type of activities is communication services

Not applicable.

3.3. Plans of the Issuer s Future Activities.

Due to the specifics of the Issuer s primary area of operations, the Issuer s future activities plans should include a higher efficiency of WBD Group management. The Issuer s future activities plans are closely connected with the plans of WBD Group. The use of trademarks by WBD Group businesses, offered on the basis of licensing agreements, will constitute the Issuer s main source of future income.

The WBD Group is constantly striving to dynamically develop its business and achieve further competitive advantages.

The growing dairy market demands an increase in production volumes without a decline in quality. An increase in juice production capacity is also planned.

One of the main competitive advantages of the WBD Group is its powerful and well-established network of independent distributors. In order to support the steady growth of sales, the construction of Cash&Carry stores will continue. The growth of additional income is planned through both promoting the primary brands of the WBD Group on the regional markets, and expanding the product range in order to fill major consumer segments, both in terms of flavours and prices.

In general, the plans of future activities of the Issuer and the WBD Group include an intention to fully satisfy the demand of legal entities and private persons in products (works, services), produced (performed, provided) in accordance with its Charter, and to receive profits.

To achieve these goals, the WBD Group will concentrate on the following areas of activity:

1) Production of dairy products and juices. The Issuer is positive that the WBD Group has enough potential to retain and strengthen its leading position in this area;

2) Higher efficiency of production. The WBD Group intends to improve the quality of its products, reduce costs, increase cash flows, and achieve a higher efficiency of work of its employees;

3) Business growth resulting from the production of cheese. Domestic brands of cheese in the Russian Federation are mainly manufactured by small facilities producing traditional cheeses for mass consumption, characterized by low prices and inferior quality. Superior quality brands of hard and soft cheese are imported from Baltic States and other European countries. The WBD Group is planning to start the production of top-quality branded hard and soft cheeses in 2003.

4) Business growth resulting from the production of mineral water. The WBD Group intends to concentrate on the primary areas of its activity. However WBD Group also started the production of mineral water in 2003. The WBD Group believes that despite relatively strong competition, this market segment has an essential potential given a correct marketing approach. The growth of mineral water consumption in summer is expected to make up for the declining seasonal demand for dairy products.

3.4. Issuer s participation in industrial, banking and financial groups, holdings, concerns and associations.

On May 12, 2004, the General Meeting of Shareholders of WBD Foods OJSC approved accession of the Issuer to Non-Commercial Organization German Economic Union in the Russian Federation (Minutes No. 20-05 dated May 20, 2004) whose Charter envisages such aims and objectives as contribution to economic cooperation between the Federal Republic of Germany and the Russian Federation in close cooperation with the German Union of Chambers of Commerce and Industry and the Eastern German Economic Union, as well as with its head organizations.

On June 14, 2005, the General Meeting of Shareholders of WBD Foods OJSC approved the accession of the Issuer to Non-Commercial Organization Russian Marketing Association .

3.6. Issuer s Subsidiaries and dependent companies.

The Issuer s activity is inextricably linked and determined by the needs and requirements of its subsidiaries and dependent companies.

Name: ***Open Joint-Stock Company Lianozovo Dairy***

Location: ***127591, Moscow, Dmitrovskoe shosse, d.108***

The grounds to consider the company a subsidiary of the Issuer: **prevailing share of the Issuer in the authorized stock of the company**

Issuer s share in the charter capital of the legal entity***98.02%***

Issuer s share in the total amount of ordinary shares of the entity: 98.02%

Share of this legal entity in the Issuer s charter capital: **0%**

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Share of this legal entity in the total amount of Issuer s ordinary shares: **0%**

Description of the principal subsidiary s activities: production and sale of milk and sour milk products.

Members of the Board of directors of the legal entity:

Plastinin, Sergei Arkadievich

Born: 1968

This person s share in the Issuer s charter capital: ***9.30%***

This person s share in the total amount of Issuer s ordinary shares: ***9.30%***

Iakobachvili, David

Born: 1957

This person s share in the Issuer s charter capital: ***7.76%***

This person s share in the total amount of Issuer s ordinary shares: ***7.76%***

Bolotovsky, Roman Viktorovich

Born: 1969

This person s share in the Issuer s charter capital: ***0%***

This person s share in the total amount of Issuer s ordinary shares: ***0%***

Davidovsky, Oleg Leonidovich

Born: 1971

This person s share in the Issuer s charter capital: ***0%***

This person s share in the total amount of Issuer s ordinary shares: ***0%***

Filatov, Vladislav Stanislavovich

Born: 1971

This person s share in the Issuer s charter capital: ***0%***

This person s share in the total amount of Issuer s ordinary shares: ***0%***

Skopinov Viktor Grigorievich

Born: 1944

This person s share in the Issuer s charter capital: ***0%***

This person s share in the total amount of Issuer s ordinary shares: ***0%***

Usikova Lyubovy Sergeevna

Born: 1955

This person s share in the Issuer s charter capital: ***0%***

This person s share in the total amount of Issuer s ordinary shares: ***0%***

Person performing the functions of individual executive body of the entity:

Usikova Lyubovy Sergeevna

Born: ***1955***

Share in Issuer s Authorised Capital Stock: ***0%***

Share in the total amount of Issuer s ordinary shares: ***0%***