

**Wimm-Bill-Dann Foods**

Unaudited Condensed Consolidated Financial Statements

*Six months ended June 30, 2003  
with Independent Accountants' Review Report*

# **Wimm-Bill-Dann Foods**

## Unaudited Condensed Consolidated Financial Statements

Six months ended June 30, 2003

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## Independent Accountants' Review Report

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

We have reviewed the accompanying condensed consolidated balance sheet of Wimm-Bill-Dann Foods, a Russian Open Joint Stock Company, as of June 30, 2003, and the related condensed consolidated statement of operations and the condensed consolidated statement of cash flows for the six-month period ended June 30, 2003. These financial statements are the responsibility of Wimm-Bill-Dann Foods' management. We did not make a similar review of the condensed consolidated statement of operations and the condensed consolidated statement of cash flows for the six-month period ended June 30, 2002.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements at June 30, 2003, and for the six-month period then ended for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Wimm-Bill-Dann Foods as of December 31, 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended not presented herein and in our report dated March 17, 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2002, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

September 2, 2003

*Ernst & Young (CIS) Limited*

## WIMM-BILL-DANN FOODS

### Condensed Consolidated Balance Sheets

*(Amounts in thousands of US dollars)*

	June 30, 2003	December 31, 2002
	(unaudited)	(audited)
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 51,827	\$ 29,340
Short-term investments	60,067	3,216
Trade receivables, net	66,224	60,146
Inventory, net (Note 3)	85,637	86,063
Taxes receivable	83,639	57,734
Advances paid	17,134	10,811
Net investment in direct financing leases	1,235	1,338
Deferred tax asset	3,752	1,850
Other current assets	4,208	2,594
<b>Total current assets</b>	<b>373,723</b>	<b>253,092</b>
<b>Non-current assets:</b>		
Property, plant and equipment, net	350,416	293,580
Intangible assets	2,882	2,736
Goodwill	22,250	19,885
Net investment in direct financing leases – long-term portion	4,547	4,381
Long-term investments	2,406	1,989
Deferred tax asset – long-term portion	1,163	–
Other long-term assets	4,295	2,812
<b>Total non-current assets</b>	<b>387,959</b>	<b>325,383</b>
<b>Total assets</b>	<b>\$ 761,682</b>	<b>\$ 578,475</b>

## WIMM-BILL-DANN FOODS

### Condensed Consolidated Balance Sheets (continued)

*(Amounts in thousands of US dollars)*

	<b>June 30, 2003</b>	<b>December 31, 2002</b>
	<u>(unaudited)</u>	<u>(audited)</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Trade accounts payable	\$ 49,028	\$ 40,144
Advances received	3,432	3,905
Short-term loans	14,594	94,050
Long-term loans, current portion	1,690	2,483
Notes payable	16,878	16,096
Taxes payable	10,394	4,933
Accrued liabilities	12,262	8,346
Government grants – current portion	2,129	2,033
Other payables	36,983	25,770
<b>Total current liabilities</b>	<u>147,390</u>	<u>197,760</u>
<b>Long-term liabilities:</b>		
Long-term loans	7,642	4,546
Long-term notes (Note 4)	199,426	–
Other long-term payables	51,959	55,047
Government grants – long-term portion	7,762	8,568
Deferred taxes – long-term portion	11,502	8,121
<b>Total long-term liabilities</b>	<u>278,291</u>	<u>76,282</u>
<b>Total liabilities</b>	<u>425,681</u>	<u>274,042</u>
<b>Minority interest</b>	23,695	21,549
<b>Shareholders' equity:</b>		
Common stock	29,908	29,908
Share premium account	164,132	164,132
Accumulated other comprehensive income:		
Currency translation adjustment	11,760	–
Retained earnings	106,506	88,844
<b>Total shareholders' equity</b>	<u>\$ 312,306</u>	<u>\$ 282,884</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 761,682</u>	<u>\$ 578,475</u>

## WIMM-BILL-DANN FOODS

### Condensed Consolidated Statements of Operations and Comprehensive Income

(unaudited)

*(Amounts in thousands of US dollars, except share and per share data)*

	<b>Six months ended June 30,</b>	
	<b>2003</b>	<b>2002</b>
<b>Sales</b>	<b>\$ 472,568</b>	\$ 402,866
<b>Cost of sales</b>	<b>329,368</b>	281,104
<b>Gross profit</b>	<b>143,200</b>	121,762
Selling and distribution expenses	<b>69,242</b>	50,556
General and administrative expenses	<b>37,918</b>	29,761
Other operating expenses	<b>4,511</b>	3,024
<b>Operating income</b>	<b>31,529</b>	38,421
Financial income and expenses, net	<b>(6,815)</b>	(7,032)
Income before provision for income taxes and minority interest	<b>24,714</b>	31,389
<b>Provision for income taxes</b>	<b>5,951</b>	7,400
Minority interest	<b>1,101</b>	1,575
Net income	<b>\$ 17,662</b>	\$ 22,414
<b>Other comprehensive income, net of tax</b>		
Currency translation adjustment	<b>11,760</b>	-
<b>Comprehensive income</b>	<b>\$ 29,422</b>	\$ 22,414
Net income per share - basic and diluted:	<b>\$ 0.40</b>	\$ 0.54
Weighted average number of shares outstanding	<b>44,000,000</b>	41,750,000

## WIMM-BILL-DANN FOODS

### Condensed Consolidated Statements Of Cash Flows

(unaudited)

*(Amounts in thousands of US dollars)*

	<b>Six months ended June 30,</b>	
	<b>2003</b>	<b>2002</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 17,662	\$ 22,414
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortisation	12,846	7,709
Bad debt and inventory provisions	5,933	176
Other adjustments	(6,120)	3,629
Changes in operating assets and liabilities:		
Decrease in inventories	3,475	5,747
Increase in trade accounts receivable	(7,579)	(8,307)
Increase in advances paid	(5,641)	(9,883)
Increase in taxes receivable	(22,847)	(9,716)
(Increase) decrease in other current assets	(1,098)	2,009
Increase in trade accounts payable	6,779	7,153
(Decrease) increase in advances received	(639)	1,974
Increase in taxes payable	5,481	4,289
Increase (decrease) in accrued liabilities	3,417	(591)
Increase in other current payables	2,665	1,475
(Decrease) in other long-term payables	(124)	–
Total cash provided by operating activities	<b>14,210</b>	<b>28,078</b>
<b>Cash flows from investing activities:</b>		
Cash paid for acquisition of subsidiaries, net of cash acquired	\$ (360)	\$ (8,034)
Cash paid for property, plant and equipment	(43,549)	(29,497)
Cash paid for acquisition of short-term investments	(56,283)	(1,026)
Proceeds from disposal of investments and property, plant and equipment	659	–
Cash paid for net investments in direct financing leases	(1,297)	(729)
Cash paid for other long-term assets	–	(8,240)
Total cash used in investing activities	<b>(100,830)</b>	<b>(47,526)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from notes payable, net of debt issuance expenses	194,102	–
Repayment of short-term loans	(81,424)	(42,536)
Proceeds from long-term loans	3,841	3,681
Repayment of long-term loans and long-term payables	(8,066)	(6,871)
Proceeds from issuance of capital stock, net of direct expenses	–	162,048
Repayment of obligations under finance leases	–	(95)
Total cash provided by financing activities	<b>108,453</b>	<b>116,227</b>
<b>Net increase in cash and cash equivalents</b>	<b>21,833</b>	<b>96,779</b>
Impact of exchange rate differences on cash and cash equivalents	654	(484)
<b>Cash and cash equivalents, at beginning of period</b>	<b>29,340</b>	<b>6,919</b>
<b>Cash and cash equivalents, at the end of period</b>	<b>\$ 51,827</b>	<b>\$ 103,214</b>

# WIMM-BILL-DANN FOODS

## Notes to Condensed Consolidated Financial Statements

(unaudited)

*(Amounts in thousands of US dollars, unless otherwise stated)*

### **1. Financial Presentation and Disclosures**

Wimm-Bill-Dann Foods (“WBD Foods” or “the Company”) is an open joint stock company registered in Russia. It is a holding company which, as at June 30, 2003, owned controlling interests in 23 manufacturing facilities in 19 locations in Russia and the Commonwealth of Independent States (“CIS”), as well as distribution centers in 26 cities in Russia and abroad. WBD Foods has a strong and diversified brand portfolio with over 1100 types of dairy products, over 170 types of juice, nectars and still drinks and a mineral water brand.

The financial statements included herein are unaudited and have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial reporting. Certain information and footnote disclosures normally included in complete financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the respective reporting standards. In the opinion of management, the financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the Company’s financial position, results of operations, and cash flows for the interim period. These financial statements should be read in conjunction with the Company’s 2002 audited consolidated financial statements and the notes related thereto. The results of operations for the six months ended June 30, 2003 may not be indicative of the operating results for the full year.

### **2. Summary of Significant Accounting Policies**

More detailed accounting policies are presented in the Company’s 2002 audited consolidated financial statements.

#### **Accounting Principles**

The Company and its subsidiaries maintain their accounting books and records in domestic currency based on domestic accounting regulations. The consolidated financial statements have been prepared in order to present WBD Foods’ consolidated financial position, results of operations, and cash flows in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and expressed in terms of U.S. dollars (see paragraph “Translation Methodology” below).

#### **Comprehensive Income**

Comprehensive income is defined as the change in equity of a company during a period from non-owner sources. Comprehensive income of WBD Foods for the six months ended June 30, 2003 consists of net income and a currency translation adjustment in the amount of US\$11,760.



# WIMM-BILL-DANN FOODS

## Notes to Condensed Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### Translation Methodology

Starting from January 1, 2003, Russia is no longer considered a hyperinflationary economy, therefore, the U.S. GAAP financial statements are prepared using the local currency, the Russian ruble, as the functional currency for WBD Foods' Russian subsidiaries. Subsequent translation to the reporting currency, the U.S. dollar, are made in accordance with SFAS No.52. All adjustments resulting from the translation of the functional currency to the reporting currency are recorded and reported in other comprehensive income.

#### Reclassification

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

VAT receivable recognised in respect of intercompany purchases was netted against VAT payable related to intercompany sales as of June 30, 2003. The corresponding reclassification as of December 31, 2002 amounted to US\$10,618. Such reclassifications had no impact on the net income or shareholders' equity.

#### New Accounting Pronouncements

In January 2003, the FASB issued FIN No.46, "Consolidation of Variable Interest Entities". FIN No.46 defines the concept of "variable interests" and requires existing unconsolidated variable interest entities to be consolidated into the financial statements of their primary beneficiaries if the variable interest entities do not effectively disperse risks among the parties involved. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. If it is reasonably possible that an enterprise will consolidate or disclose information about a variable interest entity when FIN No. 46 becomes effective, the enterprise must disclose information about those entities in all financial statements issued after January 31, 2003. The interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years, with a cumulative-effect adjustment as of the beginning of the first year restated. The adoption of the provisions of FIN No. 46 did not have a material impact on the Company's results of operations, financial position, or cash flow.

# WIMM-BILL-DANN FOODS

## Notes to Condensed Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### New Accounting Pronouncements (continued)

In April 2003, the FASB issued SFAS No.149, "Amendment to Statement 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No.133 "Accounting for Derivative Instruments and Hedging Activities." It is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. All provisions of the Statement should be applied prospectively, except as stated further. Provisions related to SFAS 133 Implementation Issues that have been effective for fiscal quarters beginning prior to June 15, 2003, should continue to be applied in accordance with respective rules effective at their inception. Rules related to forward purchases or sales of when-issued securities or other similar securities, should be also applied to existing contracts. The adoption of the provisions of SFAS No.149 is not expected to have a material impact on the Company's results of operations, financial position, or cash flow.

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

### 3. Inventory, net

Inventory as of June 30, 2003 and December 31, 2002 was comprised as follows:

	<b>June 30, 2003</b>	<b>December 31, 2002</b>
Raw materials	\$ 58,423	\$ 67,888
Work in progress	3,887	2,981
Finished goods	25,594	16,530
Reserve for inventory obsolescence	(2,267)	(1,336)
Inventory, net	<u>\$ 85,637</u>	<u>\$ 86,063</u>

## WIMM-BILL-DANN FOODS

### Notes to Condensed Consolidated Financial Statements (continued)

#### 4. Notes Payable

On May 21, 2003, UBS (Luxembourg) S.A. issued 8.5% Loan Participation Notes due 2008 for the sole purpose of funding a US\$150,000 loan (the "Loan") to Wimm-Bill-Dann Foods. The Loan will mature on May 21, 2008 and bears interest at an annual rate of 8.5%, payable semi-annually in arrears on May 21 and November 21 of each year. Such interest payments commence on November 21, 2003. As of June 30, 2003, interest in the amount of US\$1,417 was accrued.

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

On April 15, 2003, Wimm-Bill-Dann Foods issued 1,500,000 non-convertible ruble denominated notes at a face value of 1,000 rubles each. The offering raised a total of 1,500,000 thousand rubles (US\$49,426 at the exchange rate as of June 30, 2003). The notes are redeemable by Wimm-Bill-Dann Foods on April 11, 2006. The interest rate of the first coupon period is 12.9%, interest rates for subsequent coupon periods are subject to change due to the changes in Consumer Price Index, published by Goskomstat of the Russian Federation, in comparison with the appropriate period of prior year. Interest is payable semi-annually in arrears commencing on October 14, 2003. In accordance with the notes issuance terms, there are a number of covenants including requirements to maintain certain financial ratios.

#### 5. Segment Information

The Company's major reportable business segments are dairy, juice, and starting from May 2003, the water segment. These segments are strategic business units that produce and offer distinctive products, i.e. sterilized and pasteurized milk, yogurts, dairy desserts, and other dairy products in the dairy segment; fruit juices, nectars, and juice based drinks in the juice segment and bottled mineral water in the water segment.

WBD's accounting policy for segments is the same as those described in the summary of significant accounting policies. Management evaluates segment performance based on segment profit or loss before minority interests and deferred taxes. Transfers between segments are made at values that approximate market values.

## WIMM-BILL-DANN FOODS

### Notes to Condensed Consolidated Financial Statements (continued)

#### 5. Segment Information (continued)

##### Operating Segment – six months ended June 30, 2003

	Dairy	Juice	Water	Common and corporate assets/ expenses	Inter- segment receivables	Consolidated
Total sales	\$ 323,369	\$ 150,576	\$ 257	\$ 47		\$ 474,249
Inter segment sales	(1,681)	–	–	–		(1,681)
Sales to external customers	321,688	150,576	257	47		472,568
Cost of sales	(230,276)	(98,464)	(143)	(485)		(329,368)
Gross profit	91,412	52,112	114	(438)		143,200
Operating expenses	(57,967)	(37,658)	(1,755)	(14,291)		(111,671)
Operating income (loss)	33,445	14,454	(1,641)	(14,729)		31,529
Financial income and expense, net and current provision for income taxes	(12,309)	(1,296)	(8)	(1,327)		(14,940)
Net segment profit (loss)	\$ 21,136	\$ 13,158	\$ (1,649)	\$ (16,056)		\$ 16,589
Deferred tax credit						2,174
Minority interest						(1,101)
Net income						17,662
Segment total assets	\$ 433,180	\$ 205,611	\$ 10,719	\$ 132,637	\$ (20,465)	\$ 761,682

##### Operating Segment – six months ended June 30, 2002

	Dairy	Juice	Common and corporate assets/ expenses	Inter- segment receivables	Consolidated
Total sales	\$ 278,467	\$ 132,675	\$ –		\$ 411,142
Inter segment sales	(4,337)	(3,939)	–		(8,276)
Sales to external customers	274,130	128,736	–		402,866
Cost of sales	(196,805)	(83,916)	(383)		(281,104)
Gross profit	77,325	44,820	(383)		121,762
Operating expenses	(42,083)	(32,650)	(8,608)		(83,341)
Operating income (loss)	35,242	12,170	(8,991)		38,421
Financial income and expense, net and current provision for income taxes	(11,552)	(2,090)	–		(13,642)
Net segment profit (loss)	\$ 23,690	\$ 10,080	\$ (8,991)		\$ 24,779
Deferred tax charge					(790)
Minority interest					(1,575)
Net income					22,414
Segment total assets	\$ 279,680	\$ 137,466	\$ 110,899	\$ (19,853)	\$ 508,192

## WIMM-BILL-DANN FOODS

### Notes to Condensed Consolidated Financial Statements (continued)

#### 6. Contingencies

##### *Taxation*

During 2002, 2001, and 2000 WBD used certain tax optimisation initiatives. These initiatives may be challenged by the Russian tax authorities. WBD believes that the tax savings to the Company for 2002, 2001, and 2000 in respect of these initiatives amounted to approximately \$3.5 million, \$5.6 million and \$8.0 million, respectively. Should the Russian tax authorities question these initiatives and prove successful in their claim, they would be entitled to recover these amounts, together with penalties amounting to 20% of such amounts and interest at the rate of 1/300 of the Central Bank of Russia rate, equating to 0.053% at June 30, 2003, for each day of delay for late payment of such amounts. Management will vigorously defend any claims that these initiatives are contrary to Russian tax law. Starting from January 2003, WBD discontinued to use these tax optimization initiatives.

##### *Supply of Packaging Materials*

The majority of the Company's packaging materials is purchased from one supplier. There can be no assurance that, in the event of a loss of this supplier or unfavourable developments in the business practices of this supplier, substantially all of the current levels of packaging materials could be purchased at comparable, or nearly comparable, prices on the international market.

#### 7. Subsequent Events

On August 12, 2003, the Company acquired 100% stake in two legal entities involved in production of mineral water under well-known brand name Essentuki for \$4.1 million.