



**U.S.\$150,000,000**

**7.50 per cent. Loan Participation Notes due 2008**

*issued by, but without recourse to, UBS (Luxembourg) S.A. for the sole purpose of financing a loan to*

## **WIMM-BILL-DANN FOODS OJSC**

**Issue Price: 100 per cent.**

---

Wimm-Bill-Dann Foods OJSC (the “Borrower”, the “Company”, “WBD” or “we”) is a leading Russian dairy and juice manufacturer operating under the “Wimm-Bill-Dann” family of brand names. Wimm-Bill-Dann is among the most recognised brand names in Russia.

UBS (Luxembourg) S.A., a commercial bank incorporated under the laws of the Grand Duchy of Luxembourg (the “Bank”), is offering an aggregate principal amount of U.S.\$150,000,000 in the form of 7.50 per cent. loan participation notes due 2008 (the “Notes”) for the sole purpose of funding a 1-year and 96 day loan (the “Loan”) to the Borrower under the terms of a loan agreement dated 6 February 2007 (the “Loan Agreement”). The Bank will charge by way of security to BNY Corporate Trustee Services Limited as trustee (the “Trustee”), its rights to principal, interest and additional amounts (if any) under the Loan Agreement (other than certain Reserved Rights (as defined in the Trust Deed (as defined below))), and will transfer certain of its administrative rights under the Loan Agreement to the Trustee upon the closing of the offering of the Notes for the benefit of the holders of the Notes (the “Noteholders”). The Loan will rank equal in right of payment with other outstanding and unsecured indebtedness of the Borrower and will be effectively subordinated to any outstanding and future indebtedness of the Borrower’s subsidiaries.

The Bank will only be obligated to make payments of principal, interest and additional amounts (if any) to the Noteholders to the extent the Borrower makes payments to the Bank’s account of all principal, interest or additional amounts (if any) under the terms of the Loan Agreement. The Bank will have no other financial obligation under the Notes. The Notes will bear interest at an annual rate of 7.50 per cent. from and including 8 February 2007 and will be payable in two instalments. The first interest payment will be made on 14 November 2007, in respect of the period from and including 8 February 2007 to but excluding 14 November 2007 and the second interest payment will be made on 14 May 2008, in respect of the period from and including 14 November 2007 to but excluding 14 May 2008. Payments on the Notes will be made free and clear of, and without withholding or deduction for, any taxes imposed by the Grand Duchy of Luxembourg, and payments on the Loan will be made free and clear of, and without withholding or deduction for, any taxes imposed by the Grand Duchy of Luxembourg or the Russian Federation, to the extent described in this Offering Memorandum. **Noteholders will be deemed to have accepted and agreed that they will be relying solely on the credit and financial standing of the Borrower in respect of the obligations of the Borrower under the Loan Agreement.**

**This Offering Memorandum should be read in conjunction with the documents which are deemed to be incorporated by reference herein (see “Documents Incorporated by Reference” on page 7).**

Other than as described in this Offering Memorandum and a trust deed to be entered into between the Bank and the Trustee on or about 8 February 2007 (the “Trust Deed”), the Noteholders have no proprietary or other direct interest in the Bank’s rights under or in respect of the Loan Agreement or the Loan. Subject to the terms of the Trust Deed, no Noteholder will have any rights to enforce any of the provisions in the Loan Agreement or have direct recourse to the Borrower except through action by the Trustee.

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade the Notes on the Euro MTF market of the Luxembourg Stock Exchange.

**AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE “RISK FACTORS” BEGINNING ON PAGE 16 OF THIS OFFERING MEMORANDUM.**

The Notes and the Loan have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “U.S. Securities Act”), or under any securities laws of any other jurisdiction, and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account of, U.S. Persons (as defined in Regulation S under the Securities Act (“Regulation S”).

The Notes will be ready for delivery in book-entry form through the facilities of Clearstream Banking, *société anonyme* (“Clearstream, Luxembourg”) and Euroclear Bank S.A./N.V. (“Euroclear”) on or about 8 February 2007.

---

*Manager*  
**UBS INVESTMENT BANK**

The date of this Offering Memorandum is 6 February 2007

---

The Notes have not been registered under the U.S. Securities Act or any state securities laws or the laws of any other jurisdiction, are subject to restrictions on transferability and resales, and unless so registered, may not be transferred or resold except pursuant to an applicable exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act and other applicable securities laws. Each purchaser of Notes should be aware that it may be required to bear the financial risk of this investment for an indefinite period of time.

This Offering Memorandum is based on information provided by the Borrower and publicly available sources believed to be reliable. UBS Limited (the “Manager”) and the Trustee are not responsible for, and are not making any representation or warranty, express or implied, to you concerning, the accuracy or completeness of any information in this Offering Memorandum or the future performance of the Borrower. This Offering Memorandum summarises certain documents and other information and the Borrower refers you to them for a more complete understanding of what the Borrower discusses in this Offering Memorandum.

The Borrower accepts responsibility for the information contained in this Offering Memorandum. To the best of the knowledge and belief of the Borrower (having taken all reasonable care to ensure that such is the case), the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Bank accepts responsibility for the information in this Offering Memorandum in respect of itself (the “Bank Information”). To the best of the knowledge and belief of the Bank (having taken all reasonable care to ensure that such is the case), such Bank Information is in accordance with the facts and does not omit anything likely to affect the import of such information.

In making an investment decision regarding the Notes offered hereby, you must rely on your own examination of the Borrower and the terms of this offering, including the merits and risks involved. You should rely only on the information contained in this Offering Memorandum and you acknowledge that you have not relied on the Manager, the Trustee or the Bank in connection with the investigation of the accuracy of such information or your investment decision. The Borrower, the Bank, the Trustee and the Manager have not authorised any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this Offering Memorandum is accurate as of the date on the front cover of this Offering Memorandum only. The business, financial condition, results of operations of the Borrower and its group and the information set out in this Offering Memorandum may have changed since that date.

Neither the delivery of this Offering Memorandum nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change in the condition (financial or otherwise) of the Borrower, its group or the Bank since the date of this Offering Memorandum.

You should not consider any information in this Offering Memorandum to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding the purchase of the Notes. The Borrower, the Bank, the Trustee and the Manager are not making any representation to any offeree or purchaser of the Notes regarding the legality of an investment in the Notes by such offeree or purchaser under investment or similar laws.

The Borrower obtained the market data used in this Offering Memorandum, which may include approximations or be rounded for convenience, from internal surveys, industry sources and currently available information. The Borrower obtained information regarding the Russian Federation and its economy from various government publications and publicly available sources. Although the Borrower believes that its sources are reliable, you should keep in mind that none of the Borrower, the Bank, the Trustee and the Manager has independently verified information obtained from industry and government sources and that information from its internal surveys has not been verified by any independent sources. The Borrower accepts responsibility for having correctly reproduced information obtained from industry publications or public sources.

The contents of the Borrower’s website do not form any part of this Offering Memorandum.

---

The Borrower and the Bank may withdraw this offering at any time, and the Borrower, the Bank and the Manager reserve the right to reject any offer to purchase the Notes in whole or in part and to sell to any prospective investor less than the full amount of the Notes sought by such investor. The Manager and certain related entities may acquire a portion of the Notes for their own account.

The distribution of this Offering Memorandum and the offer and sale of the Notes may be restricted by law in certain jurisdictions. You must inform yourself about, and observe, any such restrictions. See “Subscription and Sale” and “Form of Notes and Transfer Restrictions” elsewhere in this Offering Memorandum. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Notes or possess or distribute this Offering Memorandum and must obtain any consent, approval or permission required for your purchase, offer or sale of the Notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. The Borrower, the Bank and the Manager are not making an offer to sell the Notes or a solicitation of an offer to buy any of the Notes to any person in any jurisdiction except where such an offer or solicitation is permitted.

This Offering Memorandum is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (iii) any body corporate falling within Article 49(2)(a) to (e) of the Order (all such persons together being referred to as “relevant persons”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

In this Offering Memorandum, references to “rubles”, “roubles” and “RUR” are to the lawful currency for the time being of the Russian Federation, references to “U.S. dollars”, “U.S.\$”, and “\$” are to the lawful currency for the time being of the United States of America, and references to “CHF” are to the lawful currency for the time being of Switzerland.

### **Stabilisation**

In connection with this offering, UBS Limited or any person acting on its behalf, may over allot Notes (provided that the aggregate principal amount of the Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the Notes) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that UBS Limited (or any persons acting on behalf of UBS Limited) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes.

---

## Table of Contents

LIMITATION ON ENFORCEABILITY OF CIVIL LIABILITIES .....	5
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS .....	6
DOCUMENTS INCORPORATED BY REFERENCE .....	7
SUMMARY .....	8
RISK FACTORS .....	16
DESCRIPTION OF THE TRANSACTION AND THE SECURITY .....	47
USE OF PROCEEDS .....	49
CAPITALISATION OF THE BORROWER .....	50
SELECTED CONSOLIDATED AND CONDENSED HISTORICAL FINANCIAL DATA .....	51
OPERATING AND FINANCIAL REVIEW AND PROSPECTS .....	53
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.....	73
BUSINESS.....	74
REGULATION.....	86
MANAGEMENT .....	88
PRINCIPAL SHAREHOLDERS.....	96
CERTAIN TRANSACTIONS WITH RELATED PARTIES .....	98
TERMS AND CONDITIONS OF THE NOTES .....	99
SUMMARY OF PROVISIONS OF THE NOTES WHILE IN GLOBAL FORM .....	112
FORM OF LOAN AGREEMENT .....	114
THE BANK .....	172
SUBSCRIPTION AND SALE .....	173
TAXATION .....	176
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM .....	181
GENERAL INFORMATION .....	182
INDEX TO FINANCIAL STATEMENTS .....	F-1

---

## Limitation on Enforceability of Civil Liabilities

Substantially all the directors and executive officers of the Borrower named in this Offering Memorandum reside outside the United Kingdom. All or a substantial portion of their assets and the assets of the Borrower are located outside the United Kingdom, principally in the Russian Federation.

As a result, the Bank or the Trustee, acting on behalf of Noteholders, may not be able to effect service of process in the United Kingdom on the Borrower or on substantially all of its officers and directors. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any provisions of the Loan Agreement or have direct recourse to the Borrower, except through action by the Trustee. Neither the Bank nor the Trustee under the Loan Administration Transfer (as defined in “Terms and Conditions of the Notes”) will be required to enter into proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Similarly, the Bank or the Trustee may not be able to obtain or enforce English court judgments against the Borrower and/or its officers or directors. Judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognised by courts in Russia only (i) if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or (ii) a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments. No such federal law has been passed and no such treaty exists between the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments. In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above, including the possible need to re-litigate in the Russian Federation a judgment obtained elsewhere, may significantly delay the enforcement of such judgment or deprive the Bank or the Trustee of effective legal recourse for claims related to your investment in the Notes.

The Loan Agreement provides that if any dispute or difference arises from or in connection with the Loan Agreement, the Bank may elect, by notice in writing to the Borrower to settle the claim by arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law, also known as UNCITRAL. The seat of any such arbitration will be London, England. The United Kingdom and the Russian Federation are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Consequently, an arbitral award from an arbitral tribunal in the United Kingdom should generally be recognised and enforced in the Russian Federation on the basis of the rules of the New York Convention. See “Risk Factors—Risks Relating to the Notes and the Trading Market—Foreign judgments may not be enforceable against us”.

The Borrower has appointed Law Debenture Corporate Services Limited of Fifth Floor, 100 Wood Street, London EC2V 7EX, as its agent for service of process in England in any suit, action or proceeding with respect to the Notes. However, such appointment may not be respected by a Russian court.

---

## Cautionary Statement Regarding Forward-Looking Statements

Matters discussed in this document may constitute forward-looking statements. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are not statements of historical facts.

This document and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. The words “believe”, “expect”, “anticipate”, “intend”, “estimate”, “forecast”, “project”, “will”, “may”, “should” and similar expressions identify forward-looking statements.

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

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

---

## Documents Incorporated by Reference

The Company's Form 20-F filing with the Commission in respect of the year ended 31 December 2005 is hereby incorporated in full by reference in, and should be read in conjunction with, this document in order to make an investment decision. Copies of the 20-F are available free of charge from the offices of The Bank of New York (Luxembourg) S.A.

---

## Summary

*This summary contains basic information about the Borrower and its industry and the offering. In addition to this summary, you are urged to read this entire Offering Memorandum carefully, especially the discussion of the risks of investing in the Notes under “Risk Factors”, before deciding to buy the Notes.*

### The Borrower

We are one of the largest Russian manufacturers of dairy and juice products, with sales of \$1,189.3 million in 2004, \$1,399.3 million in 2005 and \$1,252.6 million for the first nine months of 2006. Our reportable business segments are dairy products, beverage products and baby food products. In 2004 and 2005, the dairy segment accounted for 69.2 per cent. and 72.0 per cent. of our sales, the beverage segment, which includes juice and bottled mineral water products, accounted for 25.4 per cent. and 21.7 per cent. of our sales and the baby food segment accounted for 5.4 per cent. and 6.3 per cent. of our sales, respectively. In the first nine months of 2006, 74.1 per cent. of our net revenues were derived from the sale of dairy products, 19.3 per cent. from the sale of juice and water products and 6.6 per cent. from the sale of baby food products. Our principal geographic market is Russia, which approximately accounted for 94 per cent. and 92 per cent. of our sales in 2004 and 2005, respectively. However, we also have production facilities in certain Commonwealth of Independent States, or CIS, countries, including Ukraine, Kyrgyzstan and Uzbekistan.

In the first nine months of 2006 our net income more than tripled to U.S.\$66.2 million from U.S.\$21.7 million in the same period in 2005, and sales increased by 22.1 per cent. year-over-year, including sales increases of 26.3 per cent., 6.3 per cent. and 29.8 per cent. in the dairy, beverage and baby food segments, respectively. Our net income in 2005 increased by 31.7 per cent. to U.S.\$30.3 million compared to U.S.\$22.97 million in 2004.

In the dairy segment, our gross margin in 2004, 2005 and the first nine months of 2006 improved primarily due to higher average selling prices, general price increases and ruble appreciation. In addition, the cost of raw milk increased only moderately compared to prior years. Gross margin was higher in the beverage segment mainly due to cost control measures, general price increases and ruble appreciation against the Euro, which had a favourable impact on raw material costs denominated in Euros. Gross margin was higher in the baby food segment due to a moderate increase in the cost of raw milk compared to prior years, higher average selling prices as a result of general price increases and a shift in our product mix to include more value-added products.

Our selling and distribution expenses decreased as a percentage of sales from 13.8 per cent. to 13.2 per cent. in the first nine months of 2006 compared to the same period in 2005, and decreased from 14.6 per cent. to 13.7 per cent. in 2005 as compared to 2004. In particular, our transportation, personnel and advertising costs were higher in the first nine months of 2006 and in 2005 as a result of our regional expansion program. Over the past three years, we have been constructing new capacity, modernising existing capacity and making strategic acquisitions. Our capital expenditures (excluding acquisitions) in 2004, 2005 and the first nine months of 2006 were U.S.\$72.6 million, U.S.\$75.1 million and U.S.\$74.9 million, respectively.

Our operating cash flow for the first nine months of 2006 increased by 68.9 per cent. to U.S.\$100.4 million from U.S.\$59.4 million for the same period in 2005. Operating cash flow in 2005 increased by 58.9 per cent. amounting to U.S.\$113.9 million compared to U.S.\$71.7 million in 2004.

Our mission is to help the entire family live healthier by enjoying our nutritious and delicious food and beverage products everyday throughout their lives.

---

## The Offering

*The following summary contains basic information about the Notes and the structure of the transaction. It does not contain all the information that may be important to you. For a more complete understanding of the Notes, please refer to “Terms and Conditions of the Notes”, “Description of the Transaction and the Security” and the form of the Loan Agreement set out in this Offering Memorandum.*

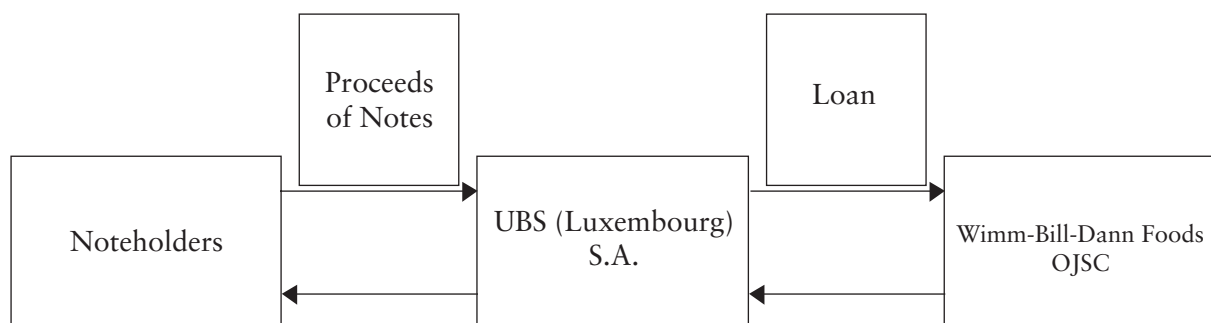
The transaction will be structured as a loan to the Borrower from the Bank.

The Bank will issue the Notes, which will be without recourse to the Bank, for the sole purpose of funding the Loan to the Borrower. The Notes will have the benefit of, and be constituted by, the Trust Deed. As provided in the Trust Deed, the Bank will:

- charge to the Trustee its rights to receive principal, interest and other amounts paid and payable under the Loan Agreement and its right to receive amounts paid and payable to it under any claim, award or judgment relating to the Loan Agreement (in each case, other than its right to amounts in respect of certain Reserved Rights (as defined in “Terms and Conditions of the Notes”));
- charge to the Trustee sums held on deposit from time to time, in an account in London in the name of the Bank with The Bank of New York, account number 1067768400, together with the debt represented thereby (other than interest, if any, from time to time earned thereon and the Reserved Rights) pursuant to the Trust Deed; and
- assign its administrative rights under the Loan Agreement (save for those rights charged or excluded above) to the Trustee upon the closing of the offering of the Notes.

The Bank will not have any obligations to the Noteholders, other than the obligation to account to the Noteholders in respect of payments of principal, interest and additional amounts, if any, under the Loan Agreement if, and only to the extent, received from the Borrower and less any Reserved Rights.

The following diagram sets out, in simplified form, the initial structure of the transaction, including the issuance of the Notes and the Loan.



## Summary Consolidated and Condensed Historical Financial Data

The summary consolidated and condensed financial data set forth below at 31 December 2005, 2004 and 2003 and for the years then ended have been derived from our audited financial statements prepared in accordance with the accounting principles generally accepted in the United States (“U.S. GAAP”). The summary consolidated and condensed financial data set forth below at and for nine months ended 30 September 2006 have been derived from our unaudited financial statements prepared in accordance with U.S. GAAP.

	Nine months ended 30 September	For the years ended 31 December		
	2006 (unaudited)	2005	2004	2003
<i>(Dollar amounts in thousands, except share, dividend per share and earnings per share)</i>				
<b>Statement of operations Data</b>				
Sales.....	\$1,252,630	\$1,399,289	\$1,189,291	\$938,459
Cost of sales .....	(849,251)	(1,002,246)	(861,661)	(665,104)
Gross profit .....	403,379	397,043	327,630	273,355
Selling and distribution expenses .....	(164,846)	(191,990)	(173,433)	(140,746)
General and administrative expenses .....	(100,083)	(109,642)	(92,816)	(75,973)
Other operating expenses, net .....	(25,406)	(7,916)	(8,458)	(7,481)
Operating income .....	113,044	87,495	52,923	49,155
Financial income and expenses, net .....	(10,259)	(22,868)	(14,618)	(15,273)
Income before provision for income taxes and minority interest .....	102,785	64,627	38,305	33,882
Provision for income taxes <sup>(1)</sup> .....	(34,296)	(30,712)	(12,170)	(10,717)
Minority interest .....	(2,303)	(3,649)	(3,161)	(2,012)
Net income .....	\$66,186	\$30,266	\$22,974	\$21,153
Earnings per share — basic and diluted				
Net income .....	1.50	0.69	0.52	0.48
Dividends per share <sup>(2)</sup> .....	0.25			
Weighted average common shares outstanding .....	44,000,000	44,000,000	44,000,000	44,000,000
<b>Other data from Continuing Operations</b>				
Capital expenditures .....	\$74,918	\$75,110	\$72,639	\$107,186
Cash provided by operating activities .....	100,377	113,937	71,720	29,940
Cash used in investing activities.....	(80,554)	(125,157)	(73,808)	(95,142)
Cash (used in) provided by financing activities .....	(52,615)	82,619	(16,159)	73,399
	At 30 September	At 31 December		
	2006 (unaudited)	2005	2004	2003
<b>Balance sheet Data</b>				
Total assets .....	\$1,027,419	\$920,557	\$796,088	\$743,885
Total net assets .....	473,039	387,043	370,916	324,618
Total debt <sup>(3)</sup> .....	346,637	371,646	283,168	283,442
Total liabilities .....	537,864	508,895	407,845	398,099

Note:

- (1) Provision for income taxes includes the tax benefit in our juice business relating to the small enterprise tax legislation.
- (2) At the annual stockholders' meeting on 30 June 2006, dividends per common share were declared in the amount of 6.87 Russian rubles which at the date of the meeting was equivalent to \$0.25 correspondingly. The dividends were paid to shareholders in August.
- (3) Total debt represents long-term and short-term loans, including the current portion of long-term loans, bonds payable and vendor financing obligations.

---

## The Notes

<b>Issuer</b>	UBS (Luxembourg) S.A.
<b>Manager</b>	UBS Limited
<b>Issue Amount</b>	U.S.\$150,000,000
<b>Issue Price</b>	100 per cent. of the principal amount of the Notes
<b>Maturity Date</b>	14 May 2008
<b>Interest</b>	The Notes will accrue interest from, and including, 8 February 2007 at a rate of 7.50 per cent. per year. Interest on the Notes will be payable in two instalments. The first interest payment will be made on 14 November 2007, in respect of the period from and including 8 February 2007 to but excluding 14 November 2007 and the second interest payment will be made on 14 May 2008, in respect of the period from and including 14 November 2007 to but excluding 14 May 2008.
<b>Status and Use of Proceeds</b>	The Notes will constitute the obligations of the Bank to apply an amount equal to the gross proceeds of the issue of the Notes solely for the purpose of financing a 1-year and 96 day loan to the Borrower under the terms of the Loan Agreement. However, the Bank's only obligations in respect of the Notes are to make payments of amounts in the aggregate equal to the sums actually received by it from the Borrower, under the Loan Agreement less amounts in respect of certain Reserved Rights. See also "Use of Proceeds" below.
<b>Security</b>	<p>The Notes will be secured by a charge over:</p> <ul style="list-style-type: none"><li>• all the Bank's rights to principal, interest and other amounts paid and payable under the Loan Agreement and its right to receive amounts paid and payable to the Bank under any claim, award or judgment relating to the Loan Agreement (in each case, other than its right to amounts in respect of certain Reserved Rights); and</li><li>• sums held on deposit from time to time in an account in London in the name of the Bank with The Bank of New York, account number 1067768400, together with the debt represented thereby (other than interest from time to time earned thereon and the Reserved Rights) pursuant to the Trust Deed.</li></ul>
<b>Assignment of Administrative Rights</b>	The Bank will assign its administrative rights under the Loan Agreement (save for those rights charged or excluded therein) to the Trustee upon the closing of the offering of the Notes.
<b>Form</b>	The Notes will be issued in registered form. The Notes will be in denominations in a principal amount of U.S.\$100,000 and in integral multiples of U.S.\$1,000 in excess thereof and will be represented by a global note certificate. The global note certificate will be exchangeable for Notes in individual definitive form in the limited circumstances specified in the global note certificate.
<b>Trustee</b>	BNY Corporate Trustee Services Limited

<b>Registrar</b>	The Bank of New York (Luxembourg) S.A.
<b>Principal Paying Agent</b>	The Bank of New York
<b>Transfer and Paying Agents</b>	The Bank of New York and The Bank of New York (Luxembourg) S.A.
<b>Optional Redemption by the Bank</b>	The Notes may be redeemed at the option of the Bank, in whole or in part, at any time, upon giving notice to the Trustee, at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of redemption, in the event that it becomes unlawful for the Bank to fund the Loan or allow the Loan to remain outstanding under the Loan Agreement or allow the Notes to remain outstanding. In such case, the Bank will require the Loan to be repaid in full.
<b>Mandatory redemption</b>	The Bank is required to redeem in whole, but not in part, the Notes at 100 per cent. of the aggregate principal amount plus accrued and unpaid interest and all additional amounts, if any, if the Borrower elects to repay the Loan in the event it is required to pay additional amounts on account of Russian or Luxembourg withholding taxes or in the event that the Borrower is required to pay additional amounts on account of certain costs incurred by the Bank pursuant to the Loan Agreement.
<b>Change of Control</b>	Upon the occurrence of a Change of Control (as defined in the Loan Agreement) the Bank will make an offer to purchase all or any part (subject to a minimum of U.S.\$100,000 in principal amount and integral multiples of U.S.\$1,000 in excess thereof) of the Notes at a price per Note equal to 101 per cent. of the principal amount thereof, plus accrued and unpaid interest thereon and additional amounts, if any, up to the date of repurchase. In such case, the Borrower is required to prepay the Loan in an amount sufficient to provide the funds to enable the Bank to repurchase the Notes.
<b>Relevant Events</b>	Upon the occurrence of a Relevant Event (as defined in “Terms and Conditions of the Notes”), the Trustee may, subject as provided in the Trust Deed, enforce the security created in the Trust Deed in favour of the Noteholders and itself.
<b>Withholding Tax</b>	All payments of principal and interest in respect of the Notes will be made free and clear of all taxes, duties, fees or other charges of the Grand Duchy of Luxembourg, other than as required by law. If any taxes, duties, fees or other charges are payable in the above jurisdictions (or, subject to certain exceptions, any other jurisdiction in which the Bank or any successor is resident for tax purposes), the sum payable by the Borrower, will be required (subject to certain exceptions) to be increased to the extent necessary to ensure that the Bank receives a net sum which it would have received free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made. The sole obligation of the Bank (or any successor) in this respect will be to pay to the Noteholders sums equivalent to the sum received from the Borrower.

**Listing**

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade the Notes on the Euro MTF market of the Luxembourg Stock Exchange.

**Transfer Restrictions**

Neither the Borrower nor the Bank has registered or intends to register the Notes under the U.S. Securities Act. You may only offer to sell the Notes in transactions exempt from or not subject to the registration requirements of the U.S. Securities Act and in compliance with all applicable laws of any relevant jurisdiction. See “Subscription and Sale” for further information.

**Risk Factors**

You should consider carefully the information set forth in “Risk Factors” beginning on page 16 and all the other information provided to you in this Offering Memorandum in deciding whether to invest in the Notes.

**Governing Law**

The Notes will be governed by English law.

The provisions of Articles 86 to 94-8 (inclusive) of the Luxembourg law of 10 August 1915 on commercial companies, as amended, are expressly excluded.

---

## The Loan

<b>Bank</b>	UBS (Luxembourg) S.A.
<b>Borrower</b>	Open Joint Stock Company Wimm-Bill-Dann Foods
<b>Principal Amount</b>	U.S.\$150,000,000
<b>Interest</b>	The Loan will accrue interest from 8 February 2007 at the rate of 7.50 per cent. per year. Interest on the Loan will be payable in two instalments on 14 November 2007 and 14 May 2008.
<b>Security and Ranking</b>	The Loan will not be secured by any collateral. The Loan will effectively rank below all of the secured debt of the Borrower and the debt and other liabilities of its subsidiaries.
<b>Prepayments</b>	The Loan may be prepaid at its principal amount (or, in the case of a change in control, 101 per cent. of its principal amount), together with accrued interest, at the option of the Borrower (a) upon any amendment, clarification, or change in, or determination under, the applicable law which would require the Borrower (i) pay any Additional Amounts in respect of taxes, (ii) make any Tax Indemnity Amounts, pursuant to the Loan Agreement, or (iii) pay additional amounts on account of certain costs incurred by the Bank, (b) upon the Borrower being required to make certain other indemnities under the Loan Agreement, or (c) upon a change of control of the Borrower.
<b>Mandatory Repayments</b>	In the event it becomes unlawful for the Bank to fund the Loan or allow the Loan to remain outstanding under the Loan Agreement or allow the Notes to remain outstanding, the Borrower may be required by the Bank to repay the Loan in full. In the event that the Bank is required to repurchase Notes as a result of a Change of Control the Borrower is required to repay the Loan in such amount as will be sufficient for the Bank to repurchase the Notes which it is required to repurchase.
<b>Certain Covenants</b>	<p>The Loan Agreement will, among other things, restrict, with certain exceptions, the ability of the Borrower and its subsidiaries to:</p> <ul style="list-style-type: none"><li>• create or incur liens;</li><li>• incur indebtedness;</li><li>• sell assets;</li><li>• engage in transaction with affiliates and related persons;</li><li>• undertake certain mergers and similar transactions; and</li><li>• limit the payments of dividend or other payments affecting the Borrower's subsidiaries.</li></ul>
<b>Events of Default</b>	Upon the occurrence of an Event of Default (as defined in the Loan Agreement), the Trustee may, subject as provided in the Trust Deed, require the Bank to declare all amounts payable under the Loan Agreement by the Borrower to be due and payable.

## The Loan

---

### Use of Proceeds

Assuming gross proceeds from the offering of U.S.\$150,000,000, the net proceeds from the Loan (after payment of fees, commissions and expenses) will be approximately U.S.\$148,266,634. We intend to use approximately U.S.\$80 million of such proceeds for the refinancing of short-term debt and approximately U.S.\$70 million for the financing of further Company expenditures.

---

## Risk Factors

*An investment in the Notes involves a high degree of risk. You should carefully consider the following information about these risks, together with the information contained in this document, before you decide to buy the Notes. If any of the following risks actually occurs, our business, financial condition, results of operations or prospects could be materially adversely affected. In that case, the value of the Notes could also decline and you could lose all or part of your investment.*

*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 are not aware of or deem immaterial, may also result in decreased operating revenues, increased operating expenses or other events that could result in a decline in the value of the Notes.*

### Risks Relating to Our Business and Industry

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

Demand for dairy and certain beverage products 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.

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

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

In addition, we currently have production facilities in Ukraine, Kyrgyzstan and Uzbekistan and trade operations in Kazakhstan, and our strategy contemplates the acquisition of additional operations in the countries of the Commonwealth of Independent States, or the CIS. As with Russia, these countries are emerging markets subject to greater political, economic, social and legal risks than more developed markets. In many respects, the risks inherent in transacting business in these countries are similar to those in Russia, especially those risks set out below in “—Risks Relating to the Russian Federation”.

Moreover, these countries represent new operating environments for us, which are located, in many instances, a great distance from our Russian operations and across multiple international borders. We thus expect to have less control over their activities. In addition, we may face more uncertainties with respect to the operational and financial needs of these businesses. These factors may hurt the profitability of our current and future operations in these countries.

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

Our strategy depends on us being a large manufacturer in the dairy and juice sectors so that we can benefit from economies of scale, better satisfy customer needs and compete effectively against other producers. Our growth will suffer if we are unable to implement our acquisition strategy, whether because we fail to identify

suitable targets, outbid competing bidders or finance acquisitions on acceptable terms or for any other reason. Furthermore, any acquisitions or similar arrangements may harm our business if we are unsuccessful in our integration process or fail to achieve the synergies and savings we expect. We describe our acquisition strategy under “Business—Business Overview—Business Strategy”.

*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. The integration of new businesses may be difficult for a variety of reasons, including differing culture, management styles and systems and infrastructure and poor records or internal controls. In addition, integrating new acquisitions may require significant initial cash investments. Furthermore, even if we are successful in integrating our existing and new businesses, expected synergies and cost savings may not materialise, resulting in lower than expected profit margins. We cannot assure you that we will be successful in realising 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 realise these benefits, our financial condition, results of operations and prospects could be materially adversely affected.

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

We have experienced substantial growth and development in a relatively short period of time, and we believe that our businesses will continue to grow for the foreseeable future. The operating complexity of our business, as well as the responsibilities of management, have increased as a result of this growth, placing significant strain on our managerial and operational resources. Our future operating results depend, in significant part, upon the continued contributions of our 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 controls and IT systems and their implementation in newly acquired businesses;
- increased marketing activities;
- hiring and training of new personnel; and
- the ability to adapt to changes in the markets in which we operate, including increased competition and demand for our services.

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

*There are material weaknesses in our internal control over financial reporting and we may not be able to remedy these material weaknesses or prevent future material weaknesses. If we fail to do so there is a more than remote likelihood that a material misstatement of the annual or interim statements will not be prevented or detected.*

The material weaknesses in our internal control over financial reporting identified by our independent registered public accounting firm for the year ended 31 December 2005 are summarised below:

- Our financial statement closing process and the transformation of our statutory financial statements into U.S. GAAP consolidated financial statements has not reduced to an acceptably low level the risk that material errors may occur and may not be detected on a timely basis by management in the normal course of business;
- Inadequate accounting resources and expertise in respect of the preparation of consolidated financial statements in accordance with U.S. GAAP; and
- Inadequate interpretation and implementation of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*.

Notwithstanding the steps we have taken and continue to take that are designed to remediate each material weakness identified above, we may not be successful in remediating these material weaknesses in the near or long term and we may not be able to prevent other material weaknesses in the future. Any failure to maintain or implement required new or improved internal control over financial reporting, or any difficulties we encounter in their implementation, could result in additional significant deficiencies or additional material weaknesses, cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting that will be required when the SEC's rules under Section 404 of the Sarbanes-Oxley Act of 2002 become applicable to us beginning with our annual report for the year ending 31 December 2006, to be filed in 2007. In addition, the first auditor attestation report will be required for the year ending 31 December 2007. Our management's reports on internal control, however, will be included in our annual report for the year ended 31 December 2006, but is not required to be audited pursuant to SEC Release No.33-8730A. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in the price of the Notes.

*To comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, we have incurred and will continue to incur significant costs and resources, including senior management time, from our operating businesses, which could materially adversely affect our business, results of operations and prospects.*

Section 404 of the Sarbanes-Oxley Act and the SEC's and the PCAOB's regulations thereunder will become applicable to us for the fiscal year ending 31 December 2006. These regulations include a requirement that our management evaluate the effectiveness of our internal control over financial reporting on an annual basis and disclose any material weaknesses in our internal control over financial reporting. Our independent registered public accounting firm will be required for the year ending 31 December 2007 to audit management's evaluation as well as our internal control over financial reporting. We have already incurred and will continue to incur costs and resources, including time of senior management, to design, maintain and evaluate internal control over financial reporting under these rules. Senior management time will necessarily be diverted from running our business. These costs are especially high for us primarily due to the diversity and geographic location of our businesses. For these reasons, the costs involved in attempting to achieve Section 404 compliance could have a material adverse effect on our business, financial condition, results of operation and prospects.

We are taking steps to refine our internal control over financial reporting directed to correct the material weaknesses pursuant to Section 404 of the Sarbanes-Oxley Act, and the efficacy of the steps we have taken to date and the steps we are still in the process of completing is subject to continued management review

supported by confirmation and testing by management and by our internal auditors, as well as audit committee oversight. As a result, additional changes will be made to our internal control over financial reporting. Since 2003, we have hired four accounting personnel who are in the process of receiving or have received ACCA-qualification with experience at other NYSE-listed Russian companies and at Big Four accounting firms in order to improve our U.S. GAAP capabilities. In addition, in 2004, we established a new department devoted to developing our systems of internal control over financial reporting in an effort to comply with Section 404 of the Sarbanes-Oxley Act of 2002. In November 2006, we incorporated this department, which is comprised of two employees in our Moscow office and additional internal controllers in certain of our subsidiaries located in the regions of Russia, into our internal control and audit services. We engaged external consultants to help us correct the material weaknesses and improve our internal control over financial reporting. These consultants are providing assistance in preparation by us of documentation of certain specific internal controls that are currently in place over financial reporting.

*Increased competition among juice producers in Russia has caused our sales volumes in our beverage segment to decline, which has adversely affected and may continue to adversely affect our results of operations.*

Although juice consumption in Russia continues to increase, our juice product sales volume decreased in 2004 and 2005 due to vigorous market competition from other domestic producers and increased activity by foreign producers. Although our juice product sales volume increased in the first nine months of 2006 by 4.5 per cent. compared to the same period in 2005, continued and/or increased competition among juice producers in Russia may cause future declines in the sales volumes of our juice products, as well as affect our juice prices and profit margins and, consequently, may materially adversely affect our results of operations. See “Business—Business Overview—Beverage products and brands” for additional information regarding our competitors.

*Consumer preference for low-price juice products and the volatility of certain raw materials required for juice production may cause our profit margins to decline and have a material adverse affect on our results of operations.*

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 2003, 2004, 2005 and the first nine months of 2006. In addition, raw materials required for juice production, such as juice concentrate and sugar, are international commodities and are subject to international price fluctuations, and we have experienced significant increases in the cost of these commodities in 2005. Although the cost of sugar has stabilised thus far in 2006, the price for juice concentrate, especially orange, has increased significantly in 2006 and we expect it to continue to increase for the foreseeable future. A continuation of these trends may cause a decline in our juice product profit margins 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. Currently, the Russian government sets rail tariffs and may further increase these tariffs as it did in 2005, 2004, 2003 and the first nine months of 2006.

In 2003, legislation was enacted which sets out the framework for the reorganisation of the Russian Railways Ministry into OAO Russian Railroads, a joint-stock company, to be followed by the eventual privatisation of certain of its functions by 2007. It is currently unclear whether this reorganisation and privatisation will be completed in accordance with the timetable contemplated in the legislation or at all. If the privatisation 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 and maintain awareness of new brands, products and product categories could significantly inhibit our future growth and profitability.*

Our business 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 introduce and 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 could significantly inhibit our future growth and profitability.

In addition, developing and maintaining brand awareness of our brands in a cost effective manner is critical to informing and educating the public about our current and future product offerings and is an important element in attracting new consumers. Successful promotion of our brands will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable and useful products and services at competitive prices. Brand promotion activities may not yield increased operating revenues, and even if they do, such operating revenues may not offset the operating expenses we incur in building our brands. Furthermore, our ability to attract new consumers and retain existing consumers depends, in part, on our ability to maintain what we believe to be our favourable brand image. Our failure to successfully and efficiently promote and maintain our brands may limit our ability to attract new consumers and retain our existing consumers and materially adversely affect our business, financial condition, results of operations and prospects.

*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 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 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, 2004, 2005 and the first nine months of 2006.

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 25 per cent. in 2005. A substantial increase in the prices of any of the foregoing, which we may not be able to pass on to customers through price increases, or a protracted interruption in supply with respect to packaging or raw materials, could have a material adverse effect on our financial condition and results of operations. See “Business—Business Overview”.

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

The food industry’s growth potential is constrained by population growth, which has been falling in Russia, 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 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 powder milk, our production costs will increase significantly in the winter, reducing our profitability.

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

In 2005 and the first nine months of 2006, the Moscow City Government purchased approximately 56 per cent. and 44 per cent. of the volume of baby food products we produced at a discount of approximately 38 per cent. from the market price of these products, and the proceeds of the baby food products sold to the Moscow City Government comprised approximately 31 per cent. and 38 per cent. of the total sales of our baby food segment. We supply these products to the Moscow City Government pursuant to a tender held on a yearly basis. In the event that we were to lose a tender, or the Moscow City Government was to reduce significantly the prices or the amount of products it purchases from our baby food business, and we were unable to find alternative purchasers, then our revenues and profits from this business could be reduced, which could have a material adverse effect on our financial condition and results of operations. We discuss the sale and distribution of products produced at the Moscow Baby Food Plant in “Business—Business Overview”.

*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, two of Russia’s largest supermarket chains, Perekryostok and Pyatyorochka, merged in April 2006, to further strengthen their negotiating leverage in their dealings with us. Although we have not yet experienced any material adverse effect as a result of the merger, we cannot guarantee that we will not experience adverse consequences in the future. A number of large Western retailers, such as the Turkish retailer Ramenka, the German retailer Metro and the French retailer Auchan, have also opened stores in the Moscow region, and we expect that the presence of these retailers will increase price competition.

Furthermore, in January and February 2005, we ceased delivery of our dairy products to a large Moscow supermarket chain due to protracted supply contract negotiations, but resumed sales and deliveries in March 2005. Similarly, in December 2005, we ceased delivery of our products to another large supermarket chain following complaints from other retailers and distributors with whom we conduct business involving the low prices charged by the chain for our products. Nonetheless, we resumed sales the following month. We may encounter similar issues in the future as the size and competitive position of retailers increase.

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. In addition, retailers in Russia typically charge food and beverage producers, including us and our competitors, for shelf space. If independent distributors and retailers give higher priority to other brands, purchase less of, or even refuse to buy, our products, seek substantial discounts, charge unreasonable prices for shelf space, fail to offer sufficient shelf space, 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 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.

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

*We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant event could result in substantial property loss and inability to rebuild in a timely manner or at all.*

We maintain insurance against some, but not all, potential risks and losses affecting our operations. We cannot assure you that our insurance will be adequate to cover all of our losses or liabilities. We also can provide no assurance that insurance will continue to be available to us on commercially reasonable terms. In the event that a significant event were to affect one of our facilities, we could experience substantial property loss and significant disruptions in production, for which we would not be compensated. Additionally, depending on the severity of the property damage, we may not be able to rebuild damaged property in a timely manner or at all. We do not maintain separate funds or otherwise set aside reserves for these types of events. Any such loss or third party claim for damages may have a material adverse effect on our business, results of operations and financial condition.

We are also exposed to product liability claims in the event that consumption of our products results in illness, injury or death, and we cannot assure you that we will not experience any material product liability losses in the future. Although we maintain insurance coverage for product liability, such coverage may be insufficient in the event of a claim. Moreover, certain of our production facilities, including the Experimental Baby Food Plant, are currently not covered by product liability insurance. In addition, if any of the products we have produced are determined to be unsuitable for consumption, we may be required to participate in a recall involving such products. For a more detailed discussion of our insurance coverage see “Business—Business Overview”.

Additionally, although we have made and will continue to make capital and other expenditures to comply with environmental requirements, in 2005 and the first nine months of 2006, we did not incur material capital expenditures for environmental controls.

*If transactions of members of our group of companies and their predecessors-in-interest were to be challenged on the basis of non-compliance with applicable legal requirements, the remedies in the event of any successful challenge could include the invalidation of such transactions or the imposition of other liabilities on such group members.*

Members of our group, or their predecessors-in-interest at different times, took a variety of actions relating to share issuances, share disposals and acquisitions, mandatory buy-out offers, valuation of property, interested party transactions, major transactions, meetings of the group members' governing bodies, other corporate matters and anti-monopoly issues that, if successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties in such transactions or shareholders of the relevant group members or their predecessors-in-interest, could result in the invalidation of such transactions and our corporate decisions, restrictions on voting control or the imposition of other liabilities. Because applicable provisions of Russian law are subject to many different interpretations, we may not be able to defend successfully any challenge brought against such transactions, and the invalidation of any such transactions or imposition of any such liability may, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

*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.

*Our competitive position and future prospects depend on our senior managers and other key personnel.*

Our ability to maintain our competitive position and to implement our business strategy is dependent to a large degree on the services of our senior management team and other key personnel. Moreover, competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals and, as a result, we attempt to structure our compensation packages in a manner consistent with the evolving standards of the Russian labour market. We are not insured against the detrimental effects to our business resulting from the loss or dismissal of our key personnel. The loss or decline in the services of members of our senior management team or an inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations.

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

Given the importance of brand recognition to our business, we have invested considerable effort in protecting our portfolio of intellectual property rights, including trademark registration. However, the steps we have taken may not be sufficient and third parties may infringe or misappropriate our proprietary rights. Moreover, Russia and the other countries of the CIS in which we operate generally offer less intellectual property protection than in Western Europe or North America. If we are unable to protect our proprietary rights against infringement or misappropriation, it could materially harm our future financial results and our ability to develop our business.

*Failure of several of our brand names and images, for which trademarks are currently being sought, to be awarded trademark protection could negatively affect our marketing plans, resulting in increased advertising expenses and a material adverse effect on our financial results.*

As of 11 December 2006, we had 81 pending trademark applications in Russia and 18 pending trademark applications abroad. We are also in the process of contesting the rejections of a number of our trademarks in countries outside of Russia. If our pending applications are not granted trademark status, we will have limited ability to defend these brand names or images from use by others, significantly reducing the value of any advertising using these brand names or images. This will negatively affect our marketing plans for the products that utilise these brand names or images, and may require us to develop a different marketing

approach for these products, resulting in increased advertising expenses and adversely affecting our financial results.

*Recently adopted changes in Russian law will limit the amount of advertising time permitted on television, which could increase our advertising expenses and have a material adverse effect on our sales and results of operations.*

The new Federal Law “On Advertising” which became effective on 1 July 2006, limits the amount of time that a broadcaster may devote to advertising to 15 per cent. of total broadcasting time per day and 20 per cent. per hour of broadcasting time. From 1 January 2008, advertising will be further limited to no more than 15 per cent. per hour of broadcasting time.

As a result of this new law, the amount of available advertising time will decrease. In turn, the reduction in available advertising time will likely lead to increased costs to advertisers for purchasing advertising time due to an increased demand for available time slots and a drive by media outlets to recover their losses from the decreased volume of advertising time they are permitted to sell. We expect the greatest price increases to affect television advertising, particularly during primetime.

The new law also imposes certain restrictions on advertising that may require us to adjust some of our advertising campaigns.

We are among the largest advertisers in Russia. According to Gallup, we were the second largest advertiser in Russia in 2003, the third largest advertiser in 2004 and the ninth largest advertiser in 2005. In 2005, over 50 per cent. of our advertising expenditures related to television advertisements. At the same time, media inflation in Russia has been significant in recent years, exceeding 34 per cent. in 2004 and 28 per cent. in 2005. Imposition of the new law, coupled with overall media inflation in Russia, will likely increase our advertising expenses. The increased cost of advertising, along with the decreased availability of advertising time slots, may also lead to a decrease in our television advertising which, consequently, may have a material adverse effect on our sales 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 Wimm-Bill-Dann, have leased equipment to juice producers. Prior to 11 February 2002, when the new Federal Law on Licensing of Certain Types of Activities became effective, Russian legislation required a licence 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 licence 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.

*One or more of our subsidiaries could be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law, which could materially adversely affect our business, financial condition, results of operations and prospects.*

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganisation or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. For example, in Russian corporate law, negative net assets calculated on the basis of Russian accounting standards as at the end of the second or any subsequent year of a company’s operation, can serve as a basis for a court to order the liquidation of the company, upon a claim by governmental authorities. Many Russian companies have negative net assets due to very low historical asset values reflected on their Russian accounting standards balance sheets; however, their solvency, i.e., their ability to pay debts as they come due, is not otherwise adversely affected by such negative net assets.

Fourteen of our subsidiaries have negative net assets. These subsidiaries, taken together, are material to our operations. We believe that, as long as these subsidiaries continue to fulfil their obligations, the risk of their liquidation is minimal. However, we have taken and continue to take certain steps to remedy this situation and reduce the number of subsidiaries with negative net assets. 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 assets. While we understand that a Moscow court liquidated a company with negative net assets 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, weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation were to occur, then we may be forced to reorganise the operations we currently conduct through the affected subsidiaries. Any such liquidation could lead to additional costs, which could materially adversely affect our business, financial condition, results of operations and prospects.

*In the event that deficiencies or ambiguities in privatisation legislation are successfully exploited to challenge our ownership in our privatised subsidiaries and we are unable to defeat these challenges, we risk losing our ownership interest in the subsidiaries or their assets, which could materially adversely affect our business, financial condition, results of operations and prospects.*

Our business includes a number of privatised companies in Russia and other countries of the former Soviet Union, and our acquisition strategy will likely involve the acquisition of additional privatised companies. To the extent that privatisation legislation is vague, inconsistent or in conflict with other legislation, including conflicts between federal and local privatisation legislation, many privatisations are vulnerable to challenge, including selective challenges. For instance, a series of presidential decrees issued in 1991 and 1992 that granted to the Moscow City Government the right to adopt its own privatisation procedures were subsequently held to be invalid by the Constitutional Court of the Russian Federation, which ruled, in part, that the presidential decrees addressed issues that were the subject of federal law. While this court ruling, in theory, did not require any implementing actions, the presidential decrees were not officially annulled by another presidential decree until 2000. In the event that any title to, or our ownership stakes in, the privatised companies acquired by us, are subject to challenge as having been improperly privatised and we are unable to defeat this claim, we risk losing our ownership interest in the company or its assets, which could materially affect our business and results of operations. In particular, as we own a substantial number of our other subsidiaries through Wimm-Bill-Dann, and as Wimm-Bill-Dann constitutes the majority of our production capacity, its loss would materially adversely affect our prospects, business and results of operations.

Additionally, of the 98.02 per cent. of Wimm-Bill-Dann and 98.91 per cent. of the Tsaritsino Dairy Plant which we own, 15 per cent. of each were acquired in separate investment tenders held by the Department of State and Municipal Property of the Moscow City Government. Under the legislation governing such tenders, a tender is not valid unless at least two participants submit bids. In the investment tenders for Wimm-Bill-Dann and the Tsaritsino Dairy Plant, the only two participants were entities which were under common control, an arguable violation of this requirement. In the event that the Russian government authorities were successfully to maintain that these tenders were not duly held since the participants were under common control, we could lose 15 per cent. of our stakes in Wimm-Bill-Dann and the Tsaritsino Dairy Plant, materially adversely affecting our results of operations.

In addition, under Russian law, transactions in shares may be invalidated on many grounds, including a sale of shares by a person without the right to dispose of such shares, breach of interested party and/or major transactions rules and failure to register the share transfer in the securities register. As a result, defects in earlier transactions in shares of our subsidiaries (where such shares were acquired from third parties) may cause our title to such shares to be subject to challenge.

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

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

*We have engaged and may continue to engage in transactions with related parties that may present conflicts of interest, potentially resulting in the conclusion of transactions on less favourable terms than could be obtained in arm’s-length transactions.*

We have engaged in transactions with affiliated parties and may continue to do so. For example, we have engaged in transactions with certain of our shareholders, directors and executive officers and companies controlled by them, including equity purchases and sales, supply contracts, loan arrangements, indemnification agreements and real property acquisitions. Conflicts of interest may arise between our affiliates and us, potentially resulting in the conclusion of transactions on terms not determined by market forces.

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

Certain of our shareholders and directors, including the Chairman of our Board of Directors, are together controlling shareholders in a group of related companies sometimes referred to as “Trinity”. The Trinity group engages in agro business, security services, casinos and construction. We purchased Municipal Guard Agency, a security services company, from the Trinity group in 2001. Prior to and in the beginning of 2002, we obtained security services from Trinity-Negus, and we currently purchase milk from certain milk supply companies in the Trinity group. The Trinity group has been the subject of speculation in the Russian press, including with respect to possible links with organised crime. However, no charges have been brought by governmental authorities against any of our shareholders or directors and, to the best of our knowledge, none has been threatened. In addition, our largest shareholder, who has been a member of our Board of Directors since 14 June 2005, was convicted of a violent crime in 1980 under the Soviet system and served nine years in a labour camp. Press speculation about these or other matters relating to our shareholders or directors could adversely affect our reputation and the value of the Notes.

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

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

particular category of imports. In addition, federal customs regulations enacted during 2002 stipulate minimum declaration amounts for imported goods. As a result of such regulations, we may be forced to declare a higher value for imported goods than the amount actually paid and, consequently, pay a higher tariff on such goods.

Another example of a government regulation that has affected us is Government Regulation No. 988, which requires food producers intending to develop and offer a new food product to the public to file an application for the product's state registration and incorporation into the State Register of Permitted Food Products. Failure to comply with Regulation No. 988 could cause delays in introducing new food and beverage products to the public, as well as the disallowance of certain tax benefits otherwise available to producers of certain food products, such as baby food. The implementation of this regulation in June 2004 has caused delays in our introduction of certain new products and has increased production costs. We may continue to experience similar delays and increased costs in connection with Regulation No. 988 in the future.

In addition, the new Sanitary Rules on Children's Food Products, which became effective on 1 June 2005, disallow certain tax benefits we formerly enjoyed in relation to some of our baby food products.

*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, Lactalis, 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 labour costs, and would have a material adverse effect on our business and results of operations. See "Business—Business Overview" for a further description of the recent investments by some of our foreign competitors in Russian production facilities.

*If the Federal Antimonopoly Service were to conclude that we acquired or created a new company in contravention of antimonopoly legislation, it could impose administrative sanctions and require the unwinding of such transactions, which could have a material adverse effect on our business and results of operations.*

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

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

Under Russian legislation, the Federal Antimonopoly Service may categorise a company as a dominant force in a market. Our baby food business is categorised as a monopoly in Moscow and the Moscow region, placing restrictions on our ability to increase our profit margins for that business. Any ruling that any of our other businesses is a monopoly could result in the regulation of our prices and restrictions on our commercial activities. The imposition of government-determined prices could, in turn, result in competitive disadvantages and a significant decline in revenues. Additionally, restrictions on expansion or government-

mandated withdrawal from regions or markets would adversely affect our plans for expansion and could reduce our market share.

*In the event that our minority shareholders or minority shareholders of our subsidiaries were to challenge successfully past or future interested party transactions, or do not approve interested party transactions or other matters in the future, the invalidation of such transactions or failure to approve such matters could have a material adverse effect on our business, financial condition, results of operations or prospects or the value of the Notes.*

We own less than 100 per cent. of the equity interests in some of our subsidiaries. In addition, certain of our wholly owned subsidiaries have had other shareholders in the past. We and our subsidiaries in the past have carried out, and continue to carry out, transactions which may be considered to be “interested party transactions” under Russian law, requiring approval by disinterested directors, disinterested independent directors or disinterested shareholders depending on the nature of the transaction and parties involved. The provisions of Russian law defining which transactions must be approved as “interested party transactions” are subject to different interpretations. We cannot assure you that our and our subsidiaries’ applications of these concepts will not be subject to challenge by former and current shareholders. Any such challenges, if successful, could result in the invalidation of transactions, which could have a material adverse effect on our business, financial condition, results of operations or prospects and the value of the Notes.

In addition, Russian law requires a three-quarters majority vote of the holders of voting stock present at a shareholders’ meeting to approve certain transactions and other matters, including, for example, charter amendments, major transactions involving assets in excess of 50 per cent. of the assets of the company, repurchase by the company of shares and certain share issuances. In some cases, minority shareholders may not approve interested party transactions requiring their approval or other matters requiring approval of minority shareholders or supermajority approval. In the event that these minority shareholders were to challenge successfully past interested party transactions, or do not approve interested party transactions or other matters in the future, we could be limited in our operational flexibility and our business, financial condition, results of operations or prospects could be materially adversely affected.

Over the past several years, we have sought and continue to seek to purchase minority stakes in our subsidiaries with the aim of acquiring 100 per cent. interests in each of our key subsidiaries. For example, in January 2005, we acquired a 10 per cent. stake in our subsidiary Siberian Dairy Plant from minority shareholders for a cash consideration of \$1.1 million increasing our beneficial ownership to 87.1 per cent. In March and April 2004, we acquired a total of an additional 6.2 per cent. of our subsidiary Tsaritsino Dairy Plant from our minority shareholders for a cash consideration of \$3.4 million increasing our beneficial ownership to 97.6 per cent. In addition, we acquired a 47.7 per cent. interest in our subsidiary Ufa Dairy Plant in September 2003 from minority shareholders for a cash consideration of \$3.1 million increasing our beneficial ownership to 96.5 per cent. According to certain amendments to the Joint Stock Companies Law, which became effective on 1 July 2006, a holder of more than 95 per cent. of shares in an open joint stock company has the right to buy out the remaining shares from the minority shareholders for a cash consideration in an amount determined by an independent appraiser.

### **Risks Relating to Our Financial Condition**

*Inflation could increase our costs and decrease our operating margins.*

The Russian economy has been characterised by high rates of inflation. 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 liabilities we have in connection with our \$150 million loan participation notes due 2008, our ruble bonds, bank loans and obligations under equipment financing. As at 30 September 2006, our consolidated total debt was approximately \$346.6 million, of which \$37.6 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 a deterioration in our financial condition.

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

The terms of the loan agreement relating to 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 acting alone or together with other persons (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 per cent. 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.

*Our inability to effect certain mergers within our group of companies may prevent us from optimising our tax rate and result in increased taxes.*

As Russian tax regulations do not allow Russian companies to pay taxes on a consolidated basis, i.e., to offset the losses of one subsidiary against the profits of another subsidiary, we are seeking to merge certain companies within each of our segments in an effort to optimise the tax rates applicable to us. Our ability to effect such mergers depends, in each instance, upon our receipt of certain governmental and corporate approvals. Our inability or failure to consummate the mergers may prevent us from optimising our tax rates and our effective tax rate may increase as our operations continue to expand.

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

A significant portion of our costs, expenditures and liabilities, 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 operating 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.

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

*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 per cent. of their offshore foreign currency earnings to Russia. In 2005, Russian companies were required to convert 10 per cent. of those earnings into rubles within seven days of receipt. While this conversion requirement was abolished by legislation that came into effect in May 2006, Russian legislation allows the Central Bank of Russia to reinstate the conversion requirement in any amount up to 30 per cent. Any balances maintained in rubles will give rise to losses if the ruble devalues against the U.S. dollar.

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

The Central Bank of Russia has from time to time imposed various currency control regulations, and may take further actions in the future. Furthermore, the government and the Central Bank of Russia 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 framework law on exchange controls which took effect in June 2004 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. While the new regulatory regime continues to be restrictive, the law contemplates that most restrictions on currency operations will be removed effective 1 January 2007.

*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 foreign currencies in Russia could increase our costs when making payments in foreign currencies to suppliers and creditors and could cause us to default on our obligations to them.*

Many of our major capital expenditures are denominated and payable in various foreign currencies, including the U.S. dollar and Euro. Russian legislation currently permits the conversion of ruble revenues into foreign currency. Any delay or other difficulty in converting rubles into a foreign currency to make a payment or delay in or restriction on 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.

In addition, the Russian tax authorities audited the Tsaritsino Dairy Plant for the period covering 2000 through 2003. This audit resulted in a tax assessment of approximately \$3.7 million relating to the plant's calculation of its profit tax and value-added tax, or VAT, liability and a reduction in the amount of VAT refundable to the Tsaritsino Dairy Plant by approximately \$1.0 million. The Tsaritsino Dairy Plant filed a claim with the Moscow Arbitration Court challenging these decisions in December 2004. In February 2005, the Moscow Arbitration Court ruled in our favour, except for the profit tax exemption in the amount of approximately \$0.1 million paid by the Tsaritsino Dairy Plant as a charity donation. The court's decision was thereafter affirmed, and the appeal by the Russian tax authorities was dismissed by the Appellate Arbitration Court.

In November 2004, Fruit Rivers was assessed approximately \$3.0 million relating to its calculation of VAT. Fruit Rivers challenged this assessment and the Moscow Arbitration Court voided the assessment in April 2005. The tax authorities did not appeal the decision and the period for appeal has expired. During the nine months of 2006 there were no material tax assessments or audits, however we can not be sure that there will not be such assessments or audits in the future.

As court decisions in Russia do not constitute precedent for subsequent cases, the court decisions described above do not prevent the Russian tax authorities from filing similar claims against us or our subsidiaries or preclude the possibility that courts would rule in their favour on such claims. Thus, while we believe that our subsidiaries have complied and continue to comply with their profit tax and VAT obligations, the Russian tax authorities may in the future make claims against other of our subsidiaries for additional profit tax or VAT amounts with respect to sales of their products. These claims could be significantly larger than

the claims described above, and our ability to recover VAT owed by the Russian tax authorities could also be jeopardised. The resulting losses could have a material adverse impact on our financial condition and results of operations.

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

Our juice producing subsidiaries have benefited from small enterprise tax legislation. If we had not taken advantage of this benefit in 2005, 2004 and 2003, our tax expenses would have increased by \$3.0 million, \$1.2 million and \$0.3 million, respectively. This tax benefit was eliminated as of 1 January 2002. However, under the amended legislation, our small enterprises that were formed prior to 1 January 2002 were able to continue and did 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 was levied at a rate of 25 per cent. and 50 per cent. of the income tax rate, respectively. Although none of our subsidiaries currently takes advantage of the small enterprise tax benefits, we cannot guarantee that the tax authorities may not retroactively challenge previous tax benefits enjoyed by our subsidiaries pursuant to small enterprise tax legislation. Such challenges, if successful, could materially adversely affect our results of operations.

In addition, our use of the small enterprise tax exemption has been subject to challenge by the Russian tax authorities.

In January 2005, our Novosibirsk subsidiary, Nectarin, was assessed approximately \$0.9 million (including required profit tax advance payments and penalties) by the local tax authorities. The assessment related to Nectarin's use of the small enterprise tax exemption in calculating its profit tax liability during 2004. Nectarin filed a claim with the Moscow Arbitration Court challenging this assessment, and the assessment was subsequently declared invalid by the court, which decision was thereafter affirmed on appeal.

In September 2004, our subsidiary, Fruit Rivers, was assessed approximately \$12.5 million (including penalties) by the local tax authorities relating to its use of the small enterprise tax exemption in calculating its profit tax liability during 2001. Fruit Rivers challenged this tax assessment with a higher tax authority, which cancelled the assessment.

While we believe that our subsidiaries have in the past complied with the rules relating to the small enterprise tax exemption, the Russian tax authorities may in the future make additional claims against our subsidiaries challenging their use of this exemption. These claims could be significantly larger than the claims described above, and the resulting losses could have a material adverse effect on our financial condition and results of operations.

*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 licences 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 unauthorised 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 licences of certain Russian banks, which resulted in market rumours 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.

We have also experienced problems with transmitting tax payments through certain Russian banks and, as a result, are experiencing difficulties with the Russian tax authorities. For example, in 2004 and 2005, our subsidiaries Wimm-Bill-Dann Purchaser, Ramenskoe Moloko and Tsaritsino Dairy Plant each received a tax assessment from the Russian tax authorities for tax arrears totalling approximately \$100,000, \$100,000 and \$750,000, respectively. Each of these tax assessments resulted from the failure of the subsidiaries' banks to transfer tax payments to the state budget upon receiving the relevant payment orders. We challenged these assessments and, in each instance, the assessments were declared invalid by Russian Arbitration Courts. Nevertheless, in May 2005, the tax authorities issued a new tax assessment in the amount of \$750,000 against the Tsaritsino Dairy Plant relating to the tax payment that was the subject of their prior \$750,000 assessment. The tax authorities subsequently filed a tax claim in the Moscow Arbitration Court, though they reduced the amount of the claim to \$510,000. The Moscow Arbitration Court ruled in our favour with respect to this claim, a decision which was thereafter upheld on appeal in the Ninth Arbitration Appeals Court, as well as on appeal in the Moscow District Arbitration Court. In addition, in April, May and June 2006 several of our subsidiaries received demands and assessments from the tax authorities in an aggregate amount of \$6,928,531 again for the failure of their banks to transfer tax payments to the state budget upon receiving the relevant payment orders. In response, we have filed claims seeking the invalidation of these tax demands and assessments with the Moscow Arbitration Court, in some cases, and directly with the tax authorities in others. Although the Russian courts, including the appeal courts, have ruled in our favour with respect to the invalidation of the tax authorities' claims and assessments for the failure of our subsidiaries' banks to transfer tax payments, we cannot determine whether the Russian tax authorities will appeal these decisions in the future. In addition, with respect to ZAO Lianozovsky, a court of third instance upheld a prior decision invalidating the tax authorities' claim that ZAO Lianozovsky was acting in bad faith. In June 2006, Wimm-Bill-Dann received a new assessment from the Russian tax authorities in the amount of approximately \$90,000, which an appeal court has also held as invalid. However, the tax authorities may challenge this decision in a court of third instance. In October 2006, our subsidiary ZAO ProPP filed a claim seeking the invalidation of the tax authorities' demand that ZAO ProPP was acting in bad faith for the failure of its bank to transfer tax payments to the state budget. Even if ZAO ProPP prevails, we expect that the Russian tax authorities will appeal the decision in a court of higher instance.

While the Russian Tax Code provides that a taxpayer is deemed to have paid a tax when the corresponding payment order is received by the taxpayer's bank, recent press reports have indicated that the Russian tax authorities have been actively and often successfully challenging such payments if the tax is not in fact received due to the failure of the bank to transfer such tax payment. Russian courts often rule in favour of the Russian tax authorities in such cases.

Our management believes that our subsidiaries have complied with their tax payment obligations, and we intend to challenge any further appeals by the tax authorities of the foregoing assessments or any additional similar assessments in the courts. However, if a court was to rule in the Russian tax authorities' favour, these subsidiaries and/or other of our subsidiaries that have faced similar problems would be liable for the amount of the assessments and potentially for interest and penalties on such amounts, and could potentially be liable for significant additional amounts.

*Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may 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.

### Risks Relating to the Notes and the Trading Market

#### *The lack of a public market for the Notes could reduce the value of your investment.*

There is no existing market for the Notes. The Notes are expected to be admitted to the Euro MTF market of the Luxembourg Stock Exchange. However, there can be no assurance that a liquid market will develop for the Notes, that Noteholders will be able to sell their Notes or that such Noteholders will be able to sell their Notes for a price that reflects their value.

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

We have a substantial amount of outstanding indebtedness, primarily consisting of the liabilities we have in connection with our \$150 million loan participation notes due 2008, our ruble bonds, bank loans and obligations under equipment financing. As at 30 September 2006, our consolidated total debt was approximately \$346.6 million, of which \$37.6 million was secured by equipment or inventory.

Our ability to make payments on and to refinance our indebtedness, including the Loan, 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, including the Loan, and the holders of our indebtedness would be able to accelerate the maturity of such indebtedness, which could cause defaults under our other indebtedness.

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

#### *Our obligations to make payments under the Loan Agreement are effectively subordinated to all the liabilities of our subsidiaries.*

We are a holding company with no direct operations other than performing certain functions for our group, including strategic development, corporate finance, planning and budgeting, advertising and public relations. In addition, in 2006 we created a number of branch offices that conduct trading activities involving the purchase from our subsidiaries of all manufactured dairy and baby food products. We believe that cash flows generated from our direct operations are sufficient to make payments to the Bank under the Loan Agreement. Nonetheless, our ability to make payments to the Bank may depend, in part, upon the receipt of dividends, distributions, intercompany loan repayments and other payments from our subsidiaries, proceeds from the sale of our subsidiaries or our issuances of debt or equity securities.

Our subsidiaries are separate and distinct legal entities with no obligation in respect of any amounts due under the Loan Agreement and under no restriction pursuant to the Loan Agreement on their ability to incur indebtedness. In the event of a bankruptcy, liquidation or reorganisation of a subsidiary, holders of that subsidiary's indebtedness and trade and other creditors of that subsidiary will have a claim to the assets of that subsidiary that is prior to your interest in those assets. Therefore, in most circumstances, obligations under the Loan Agreement will effectively rank junior to all liabilities of our subsidiaries, including, but not limited to, trade payables.

In addition, our subsidiaries may be subject to legal, contractual or other restrictions, including regulatory capital requirements, that would prevent them from paying dividends or otherwise distributing cash to us.

There can be no assurance that any of our subsidiaries will be able to make distributions to us to enable us to make payments under the Loan Agreement.

As of 30 September 2006, our subsidiaries had outstanding indebtedness (total borrowings including, but not limited to, vendor financing obligations and other payables) that effectively ranks senior to the obligations under the Loan Agreement of \$99.5 million, excluding intercompany indebtedness, deferred tax liabilities and government grants.

*Our obligations to make payments under the Loan Agreement are subordinated to our secured obligations.*

Some of our indebtedness is secured by property, plant and equipment and/or inventory. If we default on the Loan and this default triggers an event of default under any of our secured loans or other debt, or in the event of our bankruptcy, liquidation or reorganisation, the relevant entity's secured creditors will have a claim that will have priority over your interest in the assets that serve as the security for such creditor's indebtedness. Therefore, our obligations under the Loan Agreement will rank junior to our secured obligations.

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

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

*Your right to receive payment on the Notes will be limited to payments received by the Bank under the Loan Agreement.*

The Bank is only obliged to make payments under the Notes to Noteholders in an amount equivalent to sums of principal, interest and/or any Additional Amounts (as defined in the Loan Agreement) and any Tax Indemnity Amounts (as defined in the Loan Agreement) actually received by or for the account of the Bank under the Loan Agreement, less any amount in respect of Reserved Rights. Consequently, if we fail to meet fully our obligations under the Loan Agreement, you will receive less than the scheduled amount of principal, interest and/or Additional Amounts (if any) and/or Tax Indemnity Amounts (if any) on the relevant due date.

*We may not have the ability to raise the funds necessary to finance the Change of Control offer required by the Trust Deed governing the Notes and the Loan Agreement.*

Upon the occurrence of certain Change of Control events relating to the Company, the Bank will be required to offer to repurchase up to all of the outstanding Notes. However, it is possible that we will not have sufficient funds at the time of the Change of Control to make the required repayment of the Loan to enable

the Bank to repurchase the Notes or to enable us to repay other debt which requires repayment upon a Change of Control. For a definition of “Change of Control”, see the form of the Loan Agreement set out herein.

*As a Noteholder, you have no direct recourse to the Company.*

Except as otherwise disclosed in “Terms and Conditions of the Notes” and in the Trust Deed, no proprietary or other direct interest in the Bank’s rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Loan Agreement or have direct recourse to the Company, except through action by the Trustee in enforcing the Security Interests (as defined in “Terms and Conditions of the Notes”). Neither the Bank nor the Trustee under the Loan Administration Transfer (each as defined in “Terms and Conditions of the Notes”) shall be required to enter into proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Payments of principal, interest, Additional Amounts and/or Tax Indemnity Amounts by the Company under the Loan Agreement to, or to the order of, the Trustee or the Principal Paying Agent will satisfy the Bank’s obligations in respect of the Notes. Consequently, Noteholders will have no further recourse against the Bank, the Trustee or the Company after such payment is made.

*If the Central Bank of Russia requires us to hold a licence in order to make payments in U.S. dollars under the Loan we will need to apply for a licence. Without a licence, we may be restricted in our ability to make payments to the Bank or the Trustee under the Loan Agreement.*

Central Bank of Russia regulations are subject to substantial change and varying interpretations which complicate the process of determining whether a licence is needed as well as the process of obtaining a permission. With respect to the Loan, we have received legal advice that a licence is not required and that the Loan would only need to be registered if the Borrower were a Russian licensed bank. There is some uncertainty as to whether or not a licence would be required following an Event of Default under the Loan Agreement, depending on who would be deemed to be the lender at that time. If the Central Bank of Russia clarifies or advises in the future that a foreign currency licence is required for payments by the Borrower under the Loan, we will need to apply for a licence. We cannot assure you that we will receive such a licence in such case. If we do not receive such a licence, we cannot assure you that we will be able to make payments on the Loan in U.S. dollars.

*Payments we make under the Loan may be subject to Russian withholding tax.*

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal person are subject to Russian withholding tax at the rate of 20 per cent., absent reduction or elimination pursuant to terms of an applicable double tax treaty. Based on professional advice we have received, we believe that payments of interest on the Loan should not be subject to withholding under the terms of the double tax treaty between Russia and the Grand Duchy of Luxembourg. However, there can be no assurance that such relief will be obtained.

Payment of principal under the Loan to a non-resident legal entity should not be subject to Russian withholding tax to the extent that such payments do not represent payments of interest, fines or penalties on the Notes. There is a risk that any payments due under the Loan apart from repayment of principal would be characterised as Russian source income subject to a 20 per cent. withholding tax at the source.

If the payments under the Loan are subject to any withholding of Russian tax, we are obliged to increase payments as may be necessary so that the net payments received by the Noteholders will not be less than the amounts they would have received in the absence of such withholding. It should be noted, however, that tax gross-up provisions may not be enforceable under Russian law. If we are obliged to increase payments for tax reasons, we may, subject to certain conditions, prepay the Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

There will be a withholding under the Loan Agreement if the Bank, or any successor or assign of the Bank, ceases to be incorporated in a “Qualifying Jurisdiction” or if the Bank, or any successor or assignee of the Bank takes any action that would render the double taxation treaty to be inapplicable. Where this is the case, we will only be required to gross up payments in the event that the Bank, or any successor or assignee of the Bank, ceases to be incorporated in a Qualifying Jurisdiction by reason of the application of or any amendment or clarification to, or change (including a change in interpretation or application) in, or determination under the double taxation treaty that permits the issuance of the Notes without application of withholding tax. Consequently, should the Bank, or any successor or assignee of the Bank, cease to be incorporated in a Qualifying Jurisdiction in any other circumstances, we will have no obligation to gross up and no obligation to prepay the Loan. As a result, Noteholders will receive payments under the Notes net of such withholding and will have no right to require that the Notes be prepaid.

In circumstances where payments under the Loan Agreement become payable to the Trustee pursuant to the security arrangements described herein, benefits of the double tax treaty between Russia and Luxembourg will cease, and payments under such Loan Agreement to the Trustee may be required to be made subject to Russian income tax withholding at a rate of 20 per cent., or such other rate as may be in force at the time of payment. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty. In addition, while some Noteholders might be eligible for an exemption from or reduction of Russian withholding tax under applicable double taxation treaties, there is no assurance that such exemption or reduction will be available in practice.

*Foreign judgments may not be enforceable against us.*

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

*Tax might be withheld on dispositions of the Notes in Russia, reducing their value.*

If a non-resident Noteholder that is a legal person or organisation sells Notes and receives proceeds from a source within Russia, there is a risk that the part of the payment, if any, representing accrued interest may be subject to a 20 per cent. Russian withholding tax. Where proceeds from a disposition of the Notes are received from a source within Russia by an individual non-resident Noteholder, a similar withholding tax would be charged at a rate of 30 per cent. on gross proceeds from such disposal of the Notes less any available cost deduction. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes.

*Upon the occurrence of certain circumstances described in the Loan Agreement we may prepay the Loan.*

Under the terms of the Loan Agreement we may, subject to certain conditions, prepay the Loan if we are required to increase our payments for tax reasons regardless of whether the increased payment obligation results from any change in the applicable tax laws or treaties or from the change in application of existing tax laws or treaties. We may also prepay the Loan if we are required to indemnify the Bank in respect of Increased Costs (as defined in the Loan Agreement). We must prepay the Loan if it becomes illegal for the Bank to make or fund the Loan, to allow the Loan to remain outstanding, or to maintain its agreed funding source of the Loan. In case of any such prepayment, all outstanding Notes would be redeemable at par with accrued interest.

### Risks Relating to Business Operations in Emerging Markets

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

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies, such as the economy of the Russian Federation, are subject to rapid change and that the information set out herein may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult their own legal and financial advisors before making an investment in the Notes.

### Risks Relating to the Russian Federation

#### Economic Risks

*The Russian economy is less stable than those of most Western countries and could adversely affect our business and the value of the Notes.*

Since the dissolution of the Soviet Union in the early 1990s, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government budget deficit and government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to domestic 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 organised crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the population.

Although Russia has benefited recently from the increase in global commodity prices, providing an increase in disposable income and an increase in consumer spending, the Russian economy has been subject to abrupt downturns in the past. In particular, on 17 August 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 foreign currency payments. These actions resulted in an immediate and severe devaluation of the ruble and a sharp increase in the rate of inflation; a substantial 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 a major banking crisis in the Russian banking sector after the events of 17 August 1998, as

evidenced by the termination of the banking licences 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 stable ruble, strong domestic demand, rising real wages and a reduced rate of inflation; however, these trends may not continue or may be abruptly reversed.

*The infrastructure in Russia is inadequate, which could disrupt normal business activity.*

The 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 systems, communication systems and building stock. In May 2005, a fire and explosion in one of the Moscow power substations built in 1963 caused a major power outage in a large section of Moscow and some surrounding regions. The blackout disrupted the ground electric transport, including the metro system, 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 banks, stores and markets were also halted.

The deterioration of the infrastructure in Russia harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business and can interrupt business operations. The Russian government is actively considering plans to reorganise the nation's rail, electricity and communications systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. These factors could have a material adverse effect on our business and results of operations.

*Fluctuations in the global economy could materially adversely affect the Russian economy and the value of the Notes.*

The Russian 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 oil, the Russian economy is especially vulnerable to the price of oil on the world market and a decline in the price of oil could slow or disrupt the Russian economy or undermine the value of the ruble against foreign currencies. Recent military conflicts and international terrorist activity have also significantly impacted oil and gas prices, and pose additional risks to the Russian economy. Russia is also a major producer and exporter of metal products and its economy is vulnerable to fluctuations in world commodity prices and the imposition of tariffs and/or antidumping measures by the United States, the European Union or by other principal export markets.

*Negative changes to Russia's or our credit rating could adversely affect the trading price and the value of the Notes.*

Outstanding Eurobonds issued by Russia have received a rating of "BBB+" (outlook stable) from Fitch, "Baa2" from Moody's and "BBB+" (outlook stable) from Standard & Poor's, a provider of independent credit ratings. We have received from Moody's a corporate credit rating of B1 and a Eurobond Debt rating in respect of our previously issued Eurobonds of B3, which was subsequently upgraded to B2 with a positive outlook in May 2006. In addition, we have received from Standard & Poor's a corporate governance score of 7+, the highest rating for a Russian company.

A negative change to either Russia's or our credit rating could adversely affect the trading price and the value of the Notes.

### Political and Social Risks

*Political and governmental instability could materially adversely affect our business, financial condition, results of operations and prospects and the value of the Notes.*

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 privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups.

Current and future changes in the government, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could disrupt or reverse economic and regulatory reforms. In addition, the Russian presidential elections scheduled for 2008 could bring more volatility to the market. Any disruption or reversal of reform policies could lead to political or governmental instability or the occurrence of conflicts among powerful economic groups, which could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of the Notes.

*Conflict between central and regional authorities and other conflicts could create an uncertain operating environment, hindering our long-term planning ability.*

The Russian Federation is a federation of 86 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 privatisation, land 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 neighbouring regions. Various armed groups in Chechnya have regularly engaged in guerrilla attacks in that area. Violence and attacks relating to this conflict have spread to other parts of Russia, and several terrorist attacks have been carried out by Chechen terrorists in other parts of 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. These factors could materially adversely affect our business and the value of the Notes.

*Crime and corruption could disrupt our ability to conduct our business.*

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 organised criminal activity has arisen, particularly in large metropolitan centres. Property crime in large cities has increased substantially. In addition, the local press and international press have reported high levels of corruption, including the bribing of officials 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 government officials or certain individuals. Additionally, some members of the Russian media regularly publish disparaging articles in return for payment. The depredations of organised or other crime, demands of corrupt officials or claims that we have been involved

## Risk Factors

---

in official corruption could result in negative publicity, could disrupt our ability to conduct our business effectively and could thus materially adversely affect our financial condition and results of operations and the value of the Notes.

*Social instability could increase support for renewed centralised authority, nationalism or violence and thus materially adversely affect our business, financial condition, results of operations and prospects.*

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 labour and social unrest. Labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism, including 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 operating revenues, materially adversely affecting our business, financial condition, results of operations and prospects.

### Legal Risks

*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, the Constitution, federal and regional laws, 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 licences; and
- poorly developed bankruptcy procedures that are subject to abuse.

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 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.

*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, labelling 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. See “Regulation” below.

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

*Lack of developed 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, for example, 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, or the FSFM;
- the Ministry of Finance;
- the Federal Antimonopoly Service, or the FAS;
- the Central Bank of Russia; and
- various professional self-regulatory organisations.

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.

*Corporate governance standards in Russia are less developed than in the United States or Western Europe.*

Our corporate affairs are governed by our charter, our internal regulations and by laws governing companies incorporated in Russia. Standards of corporate governance are less developed in Russia than in the United States or Western Europe. In particular, shareholder rights, disclosure and reporting requirements, anti-fraud safeguards, insider trading restrictions and fiduciary duties are relatively new concepts in Russia and are unfamiliar to many Russian companies and managers.

The relatively less transparent nature of corporate governance in Russia, as well as violations of disclosure and reporting requirements or breaches of fiduciary duties, could have a material adverse effect on our business, prospects, financial condition and results of operations and/or on the value of the Notes

*The judiciary's lack of independence, its relative inexperience and the difficulty in enforcing court decisions could prevent us or you from obtaining effective redress in a court proceeding.*

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia cannot be guaranteed. The court system is 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 organised in a manner that facilitates understanding. In addition, the Russian judicial system can be slow or unjustifiably swift. Enforcement of court orders can in practice be very difficult in Russia. Additionally, court claims are often used in furtherance of political and commercial 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. Moreover, judicial decisions in Russia can be unpredictable and may not provide effective redress.

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 nationalisation. However, these protections may not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of our entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on our business, financial condition, results of operations and prospects.

*Selective or arbitrary government action could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of the Notes.*

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 licences, sudden and unexpected tax audits and claims, 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. 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, recently, the Russian tax authorities have brought tax evasion claims aggressively on the basis of certain Russian companies' use of tax-optimisation 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, results of operations and prospects, and the value of the Notes.

*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, an 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 could result in significant additional obligations on us.*

Russian law provides that shareholders 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 reorganisation;
- the approval by shareholders of a “major transaction”, which, in general terms, is a transaction involving property worth more than 50 per cent. of the gross 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 per cent. 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, financial condition, results of operations and prospects.

*Characteristics of and changes in the Russian tax system could materially adversely affect our business, financial condition, results of operations and prospects and the value of the Notes.*

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

- income taxes;
- VAT;
- unified social tax; and
- property tax.

There have been significant changes to the Russian taxation system over the past several years. A significant number of changes were introduced to various chapters of the Tax Code since their adoption. Among the most recent changes are significant amendments to the chapters on VAT and on the profit tax effective as of 1 January 2006, as well as the changes to Part One of the Tax Code (tax administration provisions) effective as of 1 January 2007. Although the quality of tax legislation has generally been improving, the possibility exists that Russia may impose onerous taxes and penalties in the future, which could adversely affect our business.

Since tax legislation is subject to frequent change, some of the sections and laws of the Tax Code related to the above-mentioned taxes are comparatively new, and interpretation of these regulations is often unclear or non-existent. Taxpayers and the Russian tax authorities often interpret tax laws differently while the Russian tax authorities' interpretation of tax laws rarely favours taxpayers. In some instances, the Russian tax authorities have applied new interpretations of tax laws retroactively. There is no established precedent or consistent court practice in respect of these issues. Taxpayers often have to resort to court proceedings to defend their position against the tax authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments.

Also differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. 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, in an audit taxpayers are subject to inspection with respect to the three calendar years which immediately preceded the year in which the audit is carried out. Previous audits do not completely exclude subsequent claims relating to the audited period because Russian tax law authorises upper-level tax inspectorates to review the results of tax audits conducted by subordinate tax inspectorates. In addition, in July 2005, the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the tax laws if a court determines that a taxpayer has obstructed a tax audit. Because none of the relevant terms is defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed" by law an audit and ultimately seek penalties beyond the three-year term.

The tax environment in Russia historically has been complicated by the often contradictory tax legislation. This uncertainty potentially exposes us to significant fines and penalties and enforcement measures despite our best efforts at compliance, and could result in a greater than expected tax burden and the suspension or termination of our licences.

In addition, on 12 October 2006, the Supreme Arbitration Court of the Russian Federation issued Resolution # 53 which introduced a new concept of "unjustified tax benefit" which is defined mainly by reference to specific examples of such tax benefits (*e.g.*, absence of business purpose) which may lead to disallowance thereof for tax purposes. There is no practice or guidance on interpretation of this new concept by the tax authorities or courts; however, it is likely that the tax authorities will actively seek to apply this concept when auditing tax assessments made by taxpayers. Albeit that the intent of this Resolution was to combat abuse of tax law in practice there is no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Supreme Arbitration Court. Furthermore, the Resolution of Plenum of Supreme Court # 64 of 28 December 2006 "About practice of the application of the responsibility for the tax crimes" is indicative of the trend to broaden the application of the criminal responsibility for tax violations.

All these changing conditions create tax risks in Russia that are more significant than those typically found in jurisdictions with more developed tax systems, and complicate tax planning and related business decisions as well as 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. We cannot provide prospective investors with any assurance that additional tax exposures will not arise while the Notes are outstanding. Additional tax exposures could have a material adverse effect on our business, financial condition, results of operations

## Risk Factors

---

and prospects. See also “—Risks Relating to the Russian Federation—Legal Risks and Uncertainties—Selective or arbitrary government action could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of the Notes”.

### Other Risks

*We have not independently verified information we have sourced from third parties.*

We have sourced certain information contained in this document from third parties, including private companies and Russian government agencies, and we have relied on the accuracy of this information without independent verification. The official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this document must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

---

## Description of the Transaction and the Security

*The following summary description should be read in conjunction with, and is qualified in its entirety by “Terms and Conditions of the Notes”, “Summary of Provisions of the Notes While in Global Form” and the form of the Loan Agreement set out herein.*

The transaction will be structured as a loan to the Borrower from the Bank.

The Bank will issue the Notes for the sole purpose of funding the Loan to the Borrower. The Notes will have the benefit of, be subject to, and be constituted by, the Trust Deed. The Bank will not have any obligations to the Noteholders, other than for the obligation to account to the Noteholders in respect of the payments of principal, interest and any Additional Amounts (as defined in the Loan Agreement) and any Tax Indemnity Amounts (as defined in the Loan Agreement) under the Loan if, and only to the extent, received from the Borrower, less any Reserved Rights. As provided in the Trust Deed, the Bank will:

- charge to the Trustee its rights to principal, interest and other amounts paid and payable under the Loan Agreement and its right to receive amounts paid and payable to it under any claim, award or judgment relating to the Loan Agreement (in each case, other than its right to amounts in respect of certain Reserved Rights);
- charge to the Trustee sums held on deposit from time to time, in an account in London in the name of the Bank with The Bank of New York, account number 1067768400, together with the debt represented thereby (other than interest, if any, from time to time earned thereon and the Reserved Rights) pursuant to the Trust Deed; and
- assign its administrative rights under the Loan Agreement (save for those rights charged or excluded above) to the Trustee upon the closing of the offering of the Notes.

The Borrower will be obliged to make payments under the Loan to the Bank’s account in accordance with the terms of the Loan Agreement. The Bank will agree in the Trust Deed not to agree to any amendments to, or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement unless the Trustee has given its prior written consent or unless authorised to do so by an Extraordinary Resolution (as defined in the Trust Deed) or Written Resolution (as defined in the Trust Deed) of the Noteholders (except in relation to Reserved Rights). The Bank will further agree to act at all times in accordance with the instructions of the Trustee from time to time with respect to the Loan Agreement (subject to being indemnified and/or secured to its satisfaction), other than as provided in the Trust Deed and except in relation to Reserved Rights. Any amendments, modifications, waivers or authorisations made with the Trustee’s consent shall be notified to the Noteholders in accordance with Condition 14 (*Notices*) of the Terms and Conditions of the Notes and shall be binding on the Noteholders. The Bank will also agree in the Agency Agreement to require that all payments made by the Borrower under the Loan Agreement be directed to the Bank’s account. Formal notice of the security interests created by the Trust Deed will be given to the Borrower, who will be required to acknowledge the same.

In the event that the Trustee enforces the security interests granted to it, the Trustee will assume certain rights and obligations towards the Noteholders, as more fully set out in the Trust Deed.

Payments in respect of the Notes will, except in certain limited circumstances, be made without any deduction or withholding for or on account of Luxembourg taxes, except as required by law. See “Terms and Conditions of the Notes—Taxation”. In the event that any deduction or withholding is required by law, the Bank will only be required to pay additional amounts to the extent that it receives corresponding amounts from the Borrower under the Loan Agreement, as the case may be. In addition, payments under the Loan Agreement shall, except in certain limited circumstances, be made without deduction or withholding for or on account of Russian or Luxembourg taxes, except as required by law. In the event that any such deduction or withholding is required by law, the Borrower will be obliged to increase the amounts payable under the Loan Agreement, by an amount equivalent to the required tax payment. See “Risk Factors—Risks Related to Taxation of the Notes—Interest payments on the Loan from our company to the

## Description of the Transaction and the Security

---

Bank and interest payments on the Notes from the Bank to the Noteholders may be subject to Russian and Luxembourg withholding tax, which would reduce the amounts received under the Notes”.

In certain circumstances, the Loan may be prepaid at its principal amount, together with accrued interest, at the Borrower’s option upon the Borrower, being required to increase the amount payable or to pay additional amounts on account of Russian or Luxembourg taxes under the Loan Agreement or required to pay additional amounts on account of certain costs incurred by the Bank. The Bank may, in its own discretion, require the Loan to be prepaid if it becomes unlawful for the Loan or the Notes to remain outstanding, as set out in the Loan Agreement. In addition, in the event of a Change of Control (as defined in the Loan Agreement) the Bank must offer to purchase all the Notes, subject to receiving prepayment of the Loan by the Borrower.

The Borrower has agreed and the Noteholders will be deemed to have acknowledged, accepted and agreed that the Bank is entitled to deduct the Bank’s fees and expenses from any initial and/or future amounts, as the case may be, to be received by the Borrower under the Loan Agreement.

---

## Use of Proceeds

The Bank will use the proceeds from the offering of the Notes for the sole purpose of financing the Loan to us. Assuming gross proceeds from the offering of the Notes of U.S.\$150,000,000, the net proceeds from the Loan (after payment of fees, commissions and expenses) will be approximately U.S.\$148,266,634. We intend to use approximately U.S.\$70 million of such proceeds for further Company expenditure and approximately U.S.\$80 million of such proceeds to refinance short-term debt.

## Capitalisation of the Borrower

The following table sets forth our consolidated capitalisation at 30 September 2006, on a historical basis and as adjusted to give effect to the Offering and the application of the net proceeds of the Loan. See “Use of Proceeds”. The historical information has been derived from our unaudited consolidated U.S. GAAP financial statements included in this Offering Memorandum. For further information regarding our financial condition, see “Selected Consolidated and Condensed Historical Financial Data”, “Operating and Financial Review and Prospects” and our U.S. GAAP financial statements located elsewhere in this document.

	At 30 September 2006	
	Historical	As Adjusted <sup>(3)</sup>
	<i>(Amounts in thousands of U.S. dollars)</i>	
Short-term loans <sup>(1),(2)</sup> .....	\$40,855	\$40,855
Long-term loans, current portion .....	2,827	2,827
Notes payable .....	–	–
Vendor financing obligations, current portion.....	15,941	15,941
Total short-term obligations .....	\$59,623	\$59,623
Notes payable .....	\$247,087	\$397,087
Long-term loans .....	21,642	21,642
Vendor financing obligations, long-term portion.....	18,285	18,285
Total long-term obligations .....	\$287,014	\$437,014
<b>Shareholders' equity</b>		
44,000,000 shares authorised, issued, paid-up and outstanding with a par value of 20 rubles at 30 September 2006 .....	\$29,908	\$29,908
Share premium account.....	164,132	164,132
<b>Accumulated other comprehensive income</b>		
Currency translation adjustment .....	60,738	60,738
Retained earnings .....	218,261	218,261
Total shareholders' equity .....	473,039	473,039
Total capitalisation and indebtedness .....	\$819,676	\$969,676

### Notes:

- (1) \$150.0 million loan will be in amount of approximately \$80 million used for repayment of the part of following short-term loans, taken after 30 September 2006:
- On 18 December 2006, we received a loan of RUR 1,000 million (\$38 million as at 31 December 2006) from ZAO IMB pursuant to an agreement dated 18 December 2006.
  - On 19 December 2006, we received a loan of RUR 700 million (\$27 million as at 31 December 2006) from Alfa-Bank pursuant to an agreement dated 19 December 2006.
  - On 26 December 2006, we received a loan of RUR 395 million (\$15 million as at 31 December 2006) from ZAO Raiffeisenbank Austria pursuant to an agreement dated 25 December 2006.
- (2) Additionally our subsidiary WIMM-BILL-DANN has entered into the following loan facilities after September 30.
- On 14 November 2006, WIMM-BILL-DANN received a loan of RUR 300 million (\$11 million as at 31 December 2006) from ZAO IMB pursuant to an agreement dated 13 November 2006.
  - On 18 December 2006, WIMM-BILL-DANN received a loan of RUR 510 million (\$19 million as at 31 December 2006) from ZAO IMB pursuant to an agreement dated 13 November 2006.
- (3) Gives effect to: the receipt of the \$150.0 million loan and repayment of short-term loans in the amount of \$80 million as mentioned in Note (1) above.

## Selected Consolidated and Condensed Historical Financial Data

The summary consolidated and condensed financial data set forth below at 31 December 2005, 2004 and 2003 and for the years then ended have been derived from our audited financial statements prepared in accordance with U.S. GAAP. The summary consolidated and condensed financial data set forth below at and for the nine months ended 30 September 2006 have been derived from our unaudited financial statements prepared in accordance with U.S. GAAP.

	Nine months ended 30 September	For the years ended 31 December		
	2006 (unaudited)	2005	2004	2003
<i>(Dollar amounts in thousands, except share, dividend per share and earnings per share)</i>				
<b>Statement of operations Data</b>				
Sales .....	\$1,252,630	\$1,399,289	\$1,189,291	\$938,459
Cost of sales .....	(849,251)	(1,002,246)	(861,661)	(665,104)
Gross profit .....	403,379	397,043	327,630	273,355
Selling and distribution expenses .....	(164,846)	(191,990)	(173,433)	(140,746)
General and administrative expenses .....	(100,083)	(109,642)	(92,816)	(75,973)
Other operating expenses, net .....	(25,406)	(7,916)	(8,458)	(7,481)
Operating income .....	113,044	87,495	52,923	49,155
Financial income and expenses, net .....	(10,259)	(22,868)	(14,618)	(15,273)
Income before provision for income taxes and minority interest .....	102,785	64,627	38,305	33,882
Provision for income taxes <sup>(1)</sup> .....	(34,296)	(30,712)	(12,170)	(10,717)
Minority interest.....	(2,303)	(3,649)	(3,161)	(2,012)
Net income .....	<u>\$66,186</u>	<u>\$30,266</u>	<u>\$22,974</u>	<u>\$21,153</u>
<b>Earnings per share — basic and diluted</b>				
Net income .....	1.50	0.69	0.52	0.48
Dividends per share <sup>(2)</sup> .....	0.25			
Weighted average common shares outstanding.....	44,000,000	44,000,000	44,000,000	44,000,000
<b>Other data from Continuing Operations</b>				
Capital expenditures.....	\$74,918	\$75,110	\$72,639	\$107,186
Cash provided by operating activities.....	100,377	113,937	71,720	29,940
Cash used in investing activities .....	(80,554)	(125,157)	(73,808)	(95,142)
Cash (used in) provided by financing activities.....	(52,615)	82,619	(16,159)	73,399

## Selected Consolidated and Condensed Historical Financial Data

	At 30	At 31 December		
	September	2005	2004	2003
	2006			
	(unaudited)			
<i>(Dollar amounts in thousands, except share, dividend per share and earnings per share)</i>				
<b>Balance sheet Data</b>				
Total assets .....	\$1,027,419	\$920,557	\$796,088	\$743,885
Total net assets .....	473,039	387,043	370,916	324,618
Total debt <sup>(3)</sup> .....	346,637	371,646	283,168	283,442
Total liabilities .....	537,864	508,895	407,845	398,099

Notes:

- (1) Provision for income taxes includes the tax benefit in our juice business relating to the small enterprise tax legislation.
- (2) At the annual stockholders' meeting on 30 June 2006, dividends per common share were declared in the amount of 6.87 rubles which at the date of the meeting was equivalent to \$0.25 correspondingly. The dividends were paid to shareholders in August.
- (3) Total debt represents long-term and short-term loans, including the current portion of long-term loans, bonds payable and vendor financing obligations.

# Operating and Financial Review and Prospects

## Operating Results

*The following discussion of our financial condition and results of continuing operations, except where otherwise indicated, should be read in conjunction with (a) our unaudited Condensed Consolidated Financial Statements and the related notes for the nine months ended 30 September 2006; (b) our Consolidated Financial Statements and the related notes as of 31 December 2005, 2004 and 2003 and for the years then ended, which have been audited by the Independent Registered Public Accounting Firm of Ernst & Young LLC and appear elsewhere in this document, (c) our business description and (d) the risk factors beginning on page 16. Our Consolidated Financial Statements and Condensed Consolidated Financial Statements have been prepared in accordance with U.S. GAAP.*

## Exchange Rates and Inflation

A certain part of our costs and expenditures, as well as liabilities, are either denominated in or tightly linked to the U.S. dollar and the Euro. These include capital expenditures and borrowings, as well as costs of packaging materials, juice concentrates and certain other raw materials. As a result, a decline in the value of the ruble against the U.S. dollar or the Euro can adversely affect us by increasing our costs in ruble terms. If we cannot increase our ruble selling prices in line with the ruble's decline in value due to competitive pressures, our margins will suffer. Additionally, if the ruble declines and prices cannot keep pace, we could have difficulty covering our U.S. dollar-denominated or Euro-denominated costs or repaying our U.S. dollar-denominated or Euro-denominated indebtedness. In nominal terms, the ruble appreciated against the U.S. dollar in 2005 (1.9 per cent.), 2004 (6.5 per cent.) and 2003 (2.2 per cent.), according to the Central Bank of Russia.

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

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

	Rubles per U.S. dollar			
	High	Low	Average <sup>(1)</sup>	Period End
<b>Nine months ended 30 September</b>				
2006 .....	28.78	26.64	27.30	26.78
2005 .....	28.84	27.46	28.21	28.50
<b>Years ended 31 December</b>				
2005 .....	29.00	27.46	28.31	28.78
2004 .....	29.45	27.75	28.73	27.75
2003 .....	31.88	29.25	30.61	29.45

Note:

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

## Operating and Financial Review and Prospects

Certain of our costs, such as salaries and supplies, are also sensitive to rises in the general price level in Russia. The following table shows the rates of inflation in Russia for the nine months ended 30 September 2006 and 2005, as well as the years ended 2006, 2005, 2004 and 2003:

	Inflation rate <sup>(1)</sup>
<b>Nine months ended 30 September</b>	
2006 .....	7.2%
2005 .....	8.6%
<b>Years ended 31 December</b>	
2006 .....	9.0%
2005 .....	10.9%
2004 .....	11.7%
2003 .....	12.0%

Note:

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

In the future, due to competitive pressures, we may not be able to raise the prices for our products sufficiently to preserve operating margins. Accordingly, high rates of inflation could increase our costs and decrease our operating margins.

Real appreciation of the ruble against the U.S. dollar positively affects our revenues. According to the Central Bank of Russia, the ruble appreciated in real terms against the U.S. dollar by 10.8 per cent., 15.1 per cent. and 13.6 per cent. in 2005, 2004 and 2003, respectively.

### Results of Continuing Operations

The following table summarises the results of our continuing operations for nine months ended 30 September 2006 and for the years ended 31 December 2005, 2004 and 2003:

	Nine months ended 30 September		For the years ended 31 December					
	2006 (unaudited)	% <sup>(1)</sup>	2005	% <sup>(1)</sup>	2004	% <sup>(1)</sup>	2003	% <sup>(1)</sup>
Sales .....	\$1,252,630	100.0	\$1,399,289	100.0	\$1,189,291	100.0	\$938,459	100.0
Cost of sales .....	(849,251)	67.8	(1,002,246)	71.6	(861,661)	72.5	(665,104)	70.9
Gross profit .....	403,379	32.2	397,043	28.4	327,630	27.5	273,355	29.1
Selling and distribution expenses .....	(164,846)	13.2	(191,990)	13.7	(173,433)	14.6	(140,746)	15.0
General and administrative expenses .....	(100,083)	8.0	(109,642)	7.8	(92,816)	7.8	(75,973)	8.1
Other operating expenses .....	(25,406)	2.0	(7,916)	0.6	(8,458)	0.7	(7,481)	0.8
Operating income .....	113,044	9.0	87,495	6.3	52,923	4.4	49,155	5.2
Financial income and expenses, net .....	(10,259)	0.8	(22,868)	1.6	(14,618)	1.2	(15,273)	1.6
Provision for income taxes .....	(34,296)	2.7	(30,712)	2.2	(12,170)	1.0	(10,717)	1.1
Minority interest.....	(2,303)	0.2	(3,649)	0.3	(3,161)	0.3	(2,012)	0.2
Income from continuing operations.....	\$66,186	5.3	\$30,266	2.2	\$22,974	1.9	21,153	2.3

(1) Percentage of sales of the relevant year.

**Nine months Ended 30 September 2006 Compared to Nine months Ended 30 September 2005**

**Sales**

Sales increased by 22.1 per cent. to \$1252.6 million for the first nine months of 2006 from \$1025.9 million for the first nine months of 2005. The dairy segment continued to be our largest business segment representing 74.1 per cent. of net sales for the first nine months of 2006 compared to 71.7 per cent. the same period in 2005.

	Nine months ended 30 September			
	2006 (unaudited)	%	2005 (unaudited)	%
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Dairy products .....	\$928,548	74.1	\$735,031	71.7
Beverages .....	241,452	19.3	227,131	22.1
Baby Food .....	82,630	6.6	63,668	6.2
Other .....	0	0.0	36	0.0
	<u>\$1,252,630</u>	<u>100</u>	<u>\$1,025,866</u>	<u>100</u>

Sales in our dairy segment increased to \$928.5 million in 2006 from \$735.0 million in 2005. Of this 26.3 per cent. increase, equally related to volume growth and to an increase in prices in RUR terms and 3.3 per cent. related to exchange rate effect.

We sold 994.1 thousand tons for the first nine months of 2006 and 881.8 thousand tons of dairy products for the first nine months of 2005.

Sales in our beverages segment increased to \$241.5 million for the first nine months of 2006 from \$227.1 million for the same period in of 2005. Of this 6.3 per cent. increase, 3.4 per cent. related to an increase in prices in RUR terms, 2.9 per cent. related to exchange rate effect. We sold 339.2 million litres of juice for nine months of 2006 and 324.6 million litres of juice for the first nine months of 2005.

Sales in the baby food segment increased to \$82.6 million for the first nine months of 2006 from \$63.7 million for the first nine months of 2005, driven primarily by volume growth as Russia's baby food market continues to grow rapidly in both value terms and geographic reach.

**Cost of Sales**

Cost of sales primarily consists of expenses relating to raw materials (concentrates for juices, raw milk for dairy products and packaging materials for all products), as they comprised 83.1 per cent. and 84.0 per cent. of our total cost of sales for nine months of 2006 and 2005, respectively. The table below sets forth these costs for the nine months ended 30 September 2006 and 2005:

	Nine months ended 30 September			
	2006 (unaudited)	%	2005 (unaudited)	%
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Raw materials.....	\$705,918	83.1	\$620,133	84.0
Personnel .....	48,040	5.7	39,312	5.3
Depreciation and amortisation .....	37,309	4.4	32,195	4.4
Goods for resale .....	11,649	1.4	10,017	1.4
Utilities .....	21,492	2.5	17,550	2.4
Other .....	24,843	2.9	18,620	2.5
	<u>\$849,251</u>	<u>100.0</u>	<u>\$737,827</u>	<u>100.0</u>

Raw materials costs increased by 13.8 per cent. between the first nine months of 2006 and 2005 but decreased as a percentage of sales to 56.4 per cent. for the first nine months of 2006 from 60.4 per cent. for the same period in 2005.

Personnel costs increased by 22.2 per cent. The average number of production personnel has increased to 10,953 for the first nine months of 2006 from 9,591 for the same period in 2005.

Depreciation increased by 15.9 per cent., reflecting additional capital expenditures in 2006 and 2005. Goods for resale costs include various dairy products and increased by 16.3 per cent. Utility costs increased by 22.5 per cent. for the first nine months 2006 due to the increase in our production and usage of warehouse facilities in relation to acquisitions.

### Gross Profit

Our gross profit increased by 40.0 per cent. to \$403.4 million for the first nine months of 2006 from \$288.0 million for the first nine months of 2005. Our gross margin also increased to 32.2 per cent. from 28.1 per cent.

Gross margin in our dairy segment increased to 30.8 per cent. for the first nine months of 2006 from 25.0 per cent. for the first nine months of 2005. This increase was primarily due to the rise in average selling price outstripping the rise in raw milk prices.

Gross margin in our juice segment decreased to 34.4 per cent. for the first nine months of 2006 from 35.3 per cent. for the first nine months of 2005.

### Selling and Distribution Expenses

Selling and distribution expenses increased by 16.3 per cent. for the first nine months of 2006 compared to the same period in 2005. As a percentage of sales, selling and distribution expenses decreased to 13.2 per cent. for the first nine months 2006 from 13.8 per cent. for the first nine months of 2005. Our selling and distribution expenses were as follows:

	Nine months ended 30 September	
	2006 (unaudited)	2005 (unaudited)
	<i>(in thousands)</i>	
Advertising and marketing .....	\$46,606	\$41,307
Personnel.....	38,846	36,221
Transportation .....	51,966	38,780
Bad debt expense.....	1,999	3,564
Materials and supplies.....	6,750	7,671
Warehouse.....	6,804	7,089
Other .....	11,875	7,124
	\$164,846	\$141,756

Advertising and marketing expenses increased by \$5.3 million, or 12.8 per cent. in absolute terms due to media inflation and our trade marketing incentives, but at the same time decreased in relation to sales, to 3.7 per cent. for the first nine months of 2006 from 4.0 per cent. for the same period in 2005.

Personnel expenses increased by 7.2 per cent. for the first nine months of 2006 as compared to the first nine months of 2005. The average number of employees in our selling and distribution department decreased to 5,422 in 2006 from 5,722 in 2005.

Transportation costs, which primarily consist of external transportation costs, increased by 34.0 per cent. for the first nine months of 2006 as compared to the first nine months of 2005. Our transportation expenses as a percentage of sales increased to 4.1 per cent. from 3.8 per cent. This was mainly due to the expansion of our distribution network into the regions and an increase in the number of routes for both our juice and dairy segments, which allowed us to increase the share of our sales in various regions.

### General and Administrative Expenses

General and administrative expenses increased by 27.6 per cent. for the first nine months of 2006 as compared to the first nine months of 2005, and increased as a percentage of sales to 8.0 per cent. from 7.6 per cent. Our general and administrative expenses for the nine months ended 30 September 2006 and 2005 were as follows:

	Nine months ended 30 September	
	2006 (unaudited)	2005 (unaudited)
	<i>(in thousands)</i>	
Personnel.....	\$59,505	\$46,267
Taxes other than income tax .....	8,961	9,255
Audit, consulting and legal fees.....	7,473	3,523
Depreciation .....	5,063	3,739
Materials and supplies.....	1,405	2,639
Communication costs .....	1,994	2,116
Rent .....	2,002	1,614
Other .....	13,680	9,260
	\$100,083	\$78,413

Personnel expenses increased by 28.6 per cent. due to average wage increase.

Taxes, other than income tax, include property tax, which is levied on our property and miscellaneous local taxes.

**Operating Income**

Operating income increased to \$113.0 million for the first nine months of 2006 from \$61.4 million for the first nine months of 2005, representing an increase of 84.1 per cent. Operating income as a percentage of sales increased to 9.0 per cent. for the first nine months of 2006 from 6.0 per cent. for the same period in 2005.

**Financial Income and Expenses**

Financial income and expenses comprised the following:

	Nine months ended 30 September	
	2006 (unaudited)	2005 (unaudited)
	<i>(in thousands)</i>	
Interest expense.....	\$21,709	\$17,693
Interest income .....	(3,086)	(1,027)
Currency remeasurement gains .....	(10,044)	(2,296)
Bank charges.....	1,441	1,452
Other financial expense (income) .....	239	73
	\$10,259	\$15,895

Financial income and expenses during the first nine months of 2006 decreased 35.5 per cent. to \$10.3 million compared to \$15.9 million in the same period of 2005. This was mainly the result of a currency remeasurement gains.

Interest expenses increased by \$4.0 million, or 22.7 per cent. in absolute terms, due to the interest payable on our ruble-denominated notes issued in December 2005.

Interest income of \$3.1 million resulted from the investment of cash proceeds received from our ruble-denominated notes issued in December 2005.

**Provision for Income Taxes**

Provision for Income Taxes increased by 65.3 per cent. for the first nine months of 2006 as compared to the first nine months of 2005 and was as follows:

	Nine months ended 30 September	
	2006 (unaudited)	2005 (unaudited)
	<i>(in thousands)</i>	
Provision for income taxes .....	\$34,296	\$20,754

**Minority Interest**

The minority interests in Consolidated and Combined Statement of Operations reflect the net income and losses of our subsidiaries that are attributable to the minority shareholders in those subsidiaries. Net profits on continuing operations attributable to minority shareholders of our subsidiaries reduced to \$2.3 million for the nine months ended 30 September 2006, from \$3.0 million for the nine months ended 30 September 2005, mostly as a result of our buyout of minority's stock of the Moscow Baby Food Plant and others.

Net Income

Net income from continuing operations for the first nine months of 2006 was \$66.2 million (5.3 per cent. of sales), compared with \$21.7 million (2.1 per cent. of sales) for the first nine months of 2005.

Year Ended 31 December 2005 Compared to Year Ended 31 December 2004

Sales

Sales increased by 17.7 per cent. to \$1,399.3 million in 2005 from \$1,189.3 million in 2004. The dairy segment was our largest business segment, representing 72.0 per cent. of sales in 2005 compared to 69.2 per cent. in 2004.

	Years ended 31 December			
	2005	%	2004	%
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Dairy products .....	\$1,007,650	72.0	\$822,906	69.2
Juice products.....	303,797	21.7	301,701	25.4
Baby food .....	87,839	6.3	64,657	5.4
Other .....	3	0.00	27	0.00
	<u>\$1,399,289</u>	<u>100.0</u>	<u>\$1,189,291</u>	<u>100.0</u>

In 2005, our dairy products sales increased by 22.5 per cent. compared to 2004, from \$822.9 million to \$1,007.7 million. The sales growth was made up of selling price increases of 12.5 per cent. in U.S. dollar terms and sales volume growth of 8.8 per cent. We sold 1,195.3 thousand tons of dairy products in 2005 and 1,098.5 thousand tons of dairy products in 2004. The average selling price increased by 12.5 per cent. from \$0.749 per kilogram in 2004 to \$0.843 per kilogram in 2005 driven by incremental ruble price increases and ruble appreciation. Our improved dairy sales were driven by our increasing presence in the regions of Russia and the CIS, especially in southern and northwest Russia, the addition of new products to our product portfolio and further optimisation of our product portfolio, the launch of new product lines and increased marketing activities.

Sales in our beverage segment increased by 0.7 per cent. to \$303.7 million in 2005 from \$301.8 million in 2004. We sold 436.2 million litres of juice and water in 2005 and 462.6 million litres of juice and water in 2004. The sales volume decrease of 5.7 per cent. was due to a highly competitive environment. The average selling price increased from \$0.652 per litre in 2004 to \$0.696 per litre in 2005, primarily due to incremental ruble price increases and ruble appreciation, partially offset by continuing changes in our product mix in favour of lower priced brands.

Sales in our baby food segment increased by 35.9 per cent. to \$87.8 million in 2005 from \$64.7 million in 2004. The sales growth was made up of selling price increases of 17.6 per cent. in U.S. dollar terms and sales volume growth of 15.5 per cent. We sold 57.8 thousand tons of baby food products in 2005 and 50.1 thousand tons in 2004. The average selling price increased by 17.6 per cent. from \$1.293 per kilogram in 2004 to \$1.521 per kilogram in 2005 driven by incremental ruble price increases, ruble appreciation and a change in our product mix favouring value-added products. Our improved baby food product sales were driven mainly by expanding our presence in the Moscow region.

In 2005 and 2004, approximately 62 per cent. of our revenues came from sales in the regions of Russia and the CIS. By segment, regional sales represented 66 per cent., 63 per cent. and 19 per cent. of dairy, beverage and baby food segment revenues in 2005, respectively. Over the last two years, we have focused on sales growth in the regions through the expansion of our distribution and production capabilities in various regions, as well as certain CIS countries.

### Cost of Sales

Expenses relating to raw materials (concentrates for juices, milk for dairy products and packaging for all sales), comprised 84.7 per cent. and 85.4 per cent. of our total cost of sales in 2005 and 2004, respectively. The table below shows our cost of sales for both 2005 and 2004:

	Years ended 31 December			
	2005	%	2004	%
	(in thousands)		(in thousands)	
Raw materials.....	\$849,089	84.7	\$736,229	85.4
Personnel .....	50,040	5.0	44,293	5.1
Depreciation and amortisation .....	43,183	4.3	35,865	4.2
Goods for resale .....	16,724	1.7	6,675	0.8
Utilities .....	22,583	2.3	18,593	2.2
Other .....	20,627	2.1	20,006	2.3
	<u>\$1,002,246</u>	<u>100.0</u>	<u>\$861,661</u>	<u>100.0</u>

Raw material costs increased by 15.3 per cent. between 2005 and 2004 but decreased as a percentage of sales to 60.7 per cent. in 2005 from 61.9 per cent. in 2004, primarily due to the increase in selling prices. Raw material costs as a percentage of dairy segment sales were lower (63.5 per cent. in 2005 compared to 65.0 per cent. in 2004) because of the increases in selling prices, which outpaced the increase in raw milk prices. Raw material costs as a percentage of baby food segment sales slightly decreased from 45.3 per cent. to 45.1 per cent. for the same reason. Raw material costs as a percentage of beverage segment sales decreased to 55.9 per cent. in 2005 from 57.1 per cent. in 2004 due to certain cost control measures undertaken in 2005, including more cost efficient purchasing.

In the dairy segment, approximately 78 per cent. of our raw material costs were ruble-denominated and 22 per cent. were hard-currency-denominated in 2005, whereas approximately 77.0 per cent. of these costs were ruble-denominated and 23.0 per cent. were hard-currency-denominated in 2004. In the baby food segment, approximately 66.0 per cent. of our raw material costs were ruble-denominated and 34.0 per cent. were hard-currency-denominated in 2005, whereas approximately 66.0 per cent. of these costs were ruble-denominated and 34.0 per cent. were hard-currency-denominated in 2004. In the beverage segment, substantially all of our raw material costs were hard-currency-denominated in 2005 and 2004.

Personnel expenses increased in absolute terms by 13.0 per cent. in 2005 as compared to 2004. The average number of production personnel increased to 9,766 in 2005 from 8,561 in 2004 mainly from our acquisition of dairy farms in late 2004 and 2005. Production personnel costs per employee (excluding the dairy farm employees, which are reported as other operating expenses) increased to \$5,849 in 2005 from \$5,174 in 2004 due to salary increases in line with the inflation rate in Russia.

Depreciation and amortisation increased by 20.4 per cent. from \$35.9 million in 2004 to \$43.2 million in 2005, reflecting the significant capital expenditures we have been making to increase our production capacity by improving our facilities and overall infrastructure.

Utility costs increased in absolute terms by 21.5 per cent. in 2005 due to larger production and warehouse facilities, as well as an increase in production volume and electricity and gas tariffs.

Goods for resale include various dairy products that we purchase from independent producers and resell.

### Gross Profit

Our gross profit increased by 21.2 per cent. to \$397.0 million in 2005 from \$327.6 million in 2004. Our gross margin increased to 28.4 per cent. in 2005 from 27.5 per cent. in 2004.

Gross margin in our dairy segment increased to 25.2 per cent. in 2005 from 24.5 per cent. in 2004 due to the increase in selling prices, which was partially offset by further increases in raw milk prices.

Gross margin in our beverage segment increased to 36.0 per cent. in 2005 from 33.8 per cent. in 2004. This increase was primarily due to certain additional cost control measures undertaken in 2005, such as the implementation of more cost efficient purchasing, and economy of scales realised following the consolidation of our juice and water business units.

Gross margin in our baby food segment increased to 38.0 per cent. in 2005 from 37.2 per cent. in 2004 mainly due to the increase in selling prices and a shift in our product mix in favour of higher margin, value-added products.

### Selling and Distribution Expenses

Selling and distribution expenses increased by 10.7 per cent. between 2005 and 2004. As a percentage of sales, selling and distribution expenses decreased to 13.7 per cent. in 2005 from 14.6 per cent. in 2004. The composition of such expenses was as follows:

	Years ended 31 December	
	2005	2004
	<i>(in thousands)</i>	
Advertising and marketing .....	\$57,936	\$54,298
Personnel.....	47,665	43,831
Transportation .....	52,995	45,938
Bad debt expense.....	3,908	3,722
Materials and supplies.....	10,446	8,447
Warehouse.....	9,525	8,937
Other .....	9,595	8,260
	\$191,990	\$173,433

Advertising and marketing expenses increased in 2005 by \$3.6 million, or 6.7 per cent. in absolute terms, and decreased by 0.5 per cent. in relation to sales, to 4.1 per cent. in 2005 from 4.6 per cent. in 2004. The increase in expenses was due to our continued investments into major brand promotions, media inflation on Russia's leading national television channels, which, in 2005, reached 28 per cent. and general increases in marketing costs. Despite this media inflation, we were able to obtain volume discounts and manage the cost increases more effectively. In 2005 and 2004, television advertising expenses represented more than half of our advertising budget.

Personnel expenses increased in absolute terms by 8.7 per cent. in 2005 as compared to 2004. The average number of employees in our selling and distribution department decreased to 5,713 in 2005 from 6,008 in 2004 as we optimised our distribution network in the regions. Our payroll cost per employee increased by 14.4 per cent. to \$8,343 in 2005 from \$7,295 in 2004 due to increased bonuses paid to our sales personnel, as well as wage inflation. Our personnel costs as a percentage of sales decreased to 3.4 per cent. in 2005 from 3.7 per cent. in 2004.

Transportation costs, which primarily consist of external transportation costs, increased by 15.4 per cent. in 2005 as compared to 2004. Our transportation expenses as a percentage of sales slightly decreased to 3.8 per cent. in 2005 from 3.9 per cent. in 2004. The increase in transportation costs was mainly due to the expansion of our sales volumes in the regions and increased transportation tariffs. In particular, ruble tariffs for railway transportation, which accounted for more than half of the total beverage transportation expenses, increased by 17.7 per cent., which exceeded inflation by 1.8 times. Our efforts to control costs and optimise routes resulted in a 0.1 per cent. decrease in transportation costs as a percentage of sales.

We continued to control our bad debt expenses, which remained stable at 0.3 per cent. as a percentage of sales in 2005. See "Liquidity and Capital Resources—Critical Accounting Policies and Estimates—Allowance for Doubtful Accounts" below.

### General and Administrative Expenses

General and administrative expenses increased by 18.1 per cent. in 2005 compared to 2004. The composition was as follows:

	Years ended 31 December	
	2005	2004
	<i>(in thousands)</i>	
Personnel.....	\$61,830	\$53,250
Taxes other than income tax .....	13,194	11,782
Audit, consulting and legal fees.....	5,567	4,655
Depreciation .....	5,711	4,576
Materials and supplies.....	3,268	3,226
Communication costs .....	2,880	2,331
Rent .....	2,177	2,268
Other .....	15,015	10,728
	\$109,642	\$92,816

Personnel expenses increased by 16.1 per cent., while the average number of employees increased to 3,478 in 2005 compared with 3,140 in 2004. Our average cost per employee increased by 4.8 per cent. to \$17,778 in 2005 from about \$16,960 in 2004, which is slight when taking into account wage inflation throughout Russia and especially in Moscow, where our head office is located.

Taxes, other than income tax, include property tax, which is levied on our property, advertising tax, which is levied on our advertising expenses and miscellaneous local taxes. The increase in these taxes of 12.0 per cent. in 2005 compared to 2004 was mainly due to our increased property, plant and equipment following our substantial capital expenditures.

Our expenses for audit, consulting and legal services increased by 19.6 per cent. in 2005 compared to 2004, primarily due to the costs associated with improving our internal control functions and general increases in audit-related fees.

Depreciation expense increased by 24.8 per cent. from \$4.6 million to \$5.7 million, reflecting capital expenditures made to support our expansion into the regions of Russia and the CIS.

### Operating Income

Operating income increased by 65.3 per cent. to \$87.5 million in 2005 from \$52.9 million in 2004. As a percentage of sales, operating income increased to 6.3 per cent. in 2005 from 4.4 per cent. in 2004. As discussed above, the increase in operating income was primarily due to the improvement in the gross margin as a result of cost control procedures. The farm operations also contributed to the improvement of our operating income.

Financial Income and Expenses

Financial income and expenses comprised the following:

	Years ended 31 December	
	2005	2004
	<i>(in thousands)</i>	
Interest expense.....	\$23,388	\$22,348
Interest income .....	(1,569)	(1,421)
Currency remeasurement gains .....	(1,231)	(7,673)
Bank charges.....	1,983	1,857
Other financial expense (income) .....	297	(493)
	\$22,868	\$14,618

Interest expense increased by 4.7 per cent. in 2005 compared to 2004. This was mainly due to the increased interest rate payable on our variable rate 1,500,000 non-convertible ruble notes issued in April 2003, as well as an overall increase in our debt.

We received interest income of \$1.6 million from the placement of temporary free funds in 2005 compared to \$1.4 million in 2004.

In 2005, we incurred total currency remeasurement gains of \$1.2 million, which comprised of gains and losses from Euro- and U.S. dollar-denominated obligations, respectively, as well as remeasurement gains from our operations in Ukraine. For purposes of accounting for our U.S. dollar-denominated notes, we used the exchange rate as of 31 December 2005, which depreciated nominally by 3.7 per cent. against the 31 December 2004 exchange rate resulting in a currency remeasurement loss. On the other hand, as the value of the ruble increased against the Euro, our Euro-denominated obligations resulted in currency remeasurement gains. With respect to ruble-denominated liabilities of our Ukrainian subsidiary, we incurred currency remeasurement gains due to the depreciation of the ruble against the Ukrainian hryvna.

Provision for Income Taxes

Our provision for income taxes for the years ended 31 December 2005 and 2004 was as follows:

	Years ended 31 December	
	2005	2004
	<i>(in thousands)</i>	
Current provision .....	\$27,385	\$18,189
Deferred income tax charge/(benefit) .....	3,327	(6,019)
	\$30,712	\$12,170

Provision for income taxes amounted to \$30.7 million in 2005 and \$12.2 million in 2004. These provisions comprise current income tax charges of \$27.4 million in 2005 and \$18.2 million in 2004, and a deferred tax expense of \$3.3 million in 2005 and a benefit of \$6.0 million in 2004. Deferred tax benefits and charges arise on temporary differences between the bases of computing income under domestic tax principles and U.S. GAAP.

In 2005, our effective income tax rate was 47.5 per cent. compared to the Russian statutory income tax rate of 24.0 per cent. and, in 2004, our effective income tax rate was 31.8 per cent. compared to the Russian statutory income tax rate of 24.0 per cent. This increase in 2005 of our effective income tax rate is primarily due to the increase of taxable losses in certain of our subsidiaries, which were fully provided for deferred tax purposes and which we were unable to offset against our profits since taxes cannot be paid on a consolidated basis under Russian tax law. In addition, our non-deductible expenses for Russian taxation

purposes increased in 2005 compared to 2004 and, furthermore, our tax privileges for small business enterprises expired in 2005. In 2003 and, to a lesser extent, in 2004, we benefited from small enterprise tax legislation, which was used by companies operating in our juice segment. Under income tax legislation which was in effect before 1 January 2002, small enterprises involved in certain activities were exempt from income taxes for the first two years of operations and, in the third and fourth years, income taxes were levied at a rate of 25 per cent. and 50 per cent. of the income tax rate, respectively. Had we not taken advantage of the small enterprise tax benefit, our income tax expense would have been higher by \$1.3 million in 2004 and by \$0.3 million in 2005. The income tax benefit for small enterprises was abolished from 1 January 2002, except that the benefit continues to be available to enterprises that were established before 1 July 2001.

### Minority Interest

The minority interest reflects the net income and losses of our subsidiaries that are attributable to the minority shareholders in those subsidiaries. In 2005 and 2004, net profits attributable to minority shareholders of our subsidiaries increased to \$3.6 million from \$3.2 million. Most of the minority expenses are attributable to the Moscow Baby Food Plant, which had minority interest expenses of \$3.6 million in 2005 and \$2.9 million in 2004. The \$0.7 million increase in 2005 was partially offset by the other minority interest on losses.

### Net Income

Net income increased in 2005 to \$30.3 million (2.2 per cent. of sales) from \$23.0 million (1.9 per cent. of sales) in 2004, primarily as a result of the increase in operating income explained above, which was partially offset by an increase in income tax expense and financial expenses.

### Liquidity and Capital Resources

#### Working capital

Our short-term demands for liquidity, including seasonal fluctuations in working capital requirements, are met by cash flows from operations and short-term debt.

As at 30 September 2006, our cash and cash equivalents balance was \$66.5 million and our working capital balance was \$237.1 million. The large level of cash and cash equivalents balance as at 30 September 2006 was due to the unused part of ruble bond and positive free cash flow which was further spent to finance the acquisitions in the fourth quarter of 2006. Working capital increased at 30 September 2006 by \$37.2 million from 31 December 2005 mainly due to the inventory increase.

Trade receivable increased to \$76.7 million at 30 September 2006 from \$60.0 million at 31 December 2005. Trade receivables turnover averaged 17 days as of 30 September 2006 and 16 days as of 31 December 2005.

Taxes receivable represents VAT (value added tax) due from the state budget. The decrease to \$53.5 million at 30 September 2006 from \$61.5 million at 31 December 2005 was primarily due to our recovery of certain VAT receivables from the state budget for previous years.

Inventory in both our dairy and juice segments primarily consisted of raw materials and finished goods. Inventory increased from \$130.6 million as of 31 December 2005 to \$181.1 million as of 30 September 2006. Turnover of inventory in days as of 30 September 2006 amounted to 69 days, as compared to 56 days as of 31 December 2005. The relatively high number of days in inventory is a reflection of our regular summer purchase of dry milk stock.

Trade accounts payable increased to \$95.7 million at 30 September 2006 from \$65.8 million at 31 December 2005. Trade payables turnover averaged 30 days as of 30 September 2006 and 24 days as of 31 December 2005.

At 31 December 2005, our cash and cash equivalents balance was \$93.1 million, of which \$91.9 million were ruble-denominated and \$1.2 million were Euro and U.S. dollar-denominated. Our working capital

balance was \$199.9 million. Our working capital position at 31 December 2005 increased compared to \$164.0 million at 31 December 2004, primarily due to an increase in cash and cash equivalents and short-term investments which reflected the deposit of a portion of the proceeds from our ruble-denominated notes issued on 12 December 2005. We used cash to repay our ruble notes redeemable on 11 April 2006. We believe that our working capital is sufficient for our present requirements.

Taxes receivable decreased by \$24.1 million to \$61.5 million as of 31 December 2005 from \$85.6 million as of 31 December 2004. Taxes receivable represents VAT due from the state budget. The decrease at 31 December 2005 was primarily due to our recovery of certain VAT receivables from the state budget for previous years. Under existing tax legislation, we are able to offset this VAT against income taxes and other taxes payable to the state budget and to recover from the state budget. We are taking all legally available steps, including filing litigation claims, to facilitate the recovery of taxes receivable from the state budget. In 2005, \$31.9 million in VAT was relived from the state budget in cash and \$5.3 million was recovered by an offset. We also received \$0.5 million from the tax authorities as penalties.

Trade accounts payable increased to \$65.8 million at 31 December 2005 from \$62.4 million at 31 December 2004. Trade payables turnover averaged 24 days as of 31 December 2005 and 27 days as of 31 December 2004.

Trade receivables decreased from \$62.2 million as of 31 December 2004 to \$60.0 million as of 31 December 2005 after the allowance for bad debts of \$5.1 million, as compared to \$13.9 million as of 31 December 2004. Trade receivables turnover averaged 16 days as of 31 December 2005 and 19 days as of 31 December 2004.

Inventory increased from \$102.0 million as of 31 December 2004 to \$130.6 million as of 31 December 2005. Turnover of inventory in days as of 31 December 2005 amounted to 56 days, as compared to 49 days as of 31 December 2004. The increase in inventory levels was partly due to an increase in our stock of raw milk held to balance out seasonality.

### Cash Flows

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

	Nine months ended 30 September	Years ended 31 December		
		2006 (unaudited)	2005	2004
		<i>(in thousands)</i>		
Cash flows provided by operating activities .....	\$100,377	\$113,937	\$71,720	\$29,940
Cash flows used in investing activities .....	(80,554)	(125,157)	(73,808)	(95,142)
Cash (used in) provided by financing activities.....	(52,615)	82,619	(16,159)	73,399
Net increase (decrease) in cash .....	(26,557)	69,312	(16,4730	10,924
Cash paid for acquisition of property, plant and equipment .....	(72,760)	(72,805)	(68,103)	(91,974)
Cash paid for acquisition of subsidiaries, net of cash acquired .....	(13,433)	(24,964)	(6,697)	(7,002)

For the first nine months of 2006, our operating cash flow was \$100.4 million, compared with \$59.4 million for the first nine months of 2005. The increase of 68.9 per cent. was due to profitable growth and better management of our working capital.

We spent \$80.6 million on our investment activities for the first nine months of 2006, including acquisitions of property, plant and equipment of \$72.8 million, acquisitions of subsidiaries of \$13.4 million, investments in direct financing leases of \$1.3 million and other investment activities of \$0.2 million, offset \$2.7 million

proceeds from disposal of property, plant and equipment. We also invested temporary free cash proceeds from issued notes in short-term bank deposits in the amount of \$2.9 million.

For the first nine months 2006 and 2005, we financed our capital expenditures and acquisitions exclusively with operating cash flows.

We spent \$125.1 million on our investment activities in 2005, including acquisitions of property, plant and equipment of \$72.8 million, acquisitions of subsidiaries of \$25.0 million, investments in direct financing leases of \$2.0 million and other investment activities of \$0.1 million, offset by \$0.5 million proceeds from disposal of investments and \$6.0 million proceeds from disposal of property, plant and equipment. We also invested temporary free cash proceeds from issued notes in short-term bank deposits in the amount of \$31.8 million.

Vendor financed acquisitions of property, plant and equipment totalled \$5.7 million in 2005 compared to \$7.3 million in 2004 because of an overall reduction in our vendor financed capital expenditures, including the improvement of packaging facilities. Instead, we are shifting our capital expenditures towards construction and installation projects, which are typically not vendor-financed.

Net cash provided by operating activities in 2005 was \$113.9 million, compared with \$71.7 million in 2004. The increase in 2005 was due to profitable growth and better management of our working capital, including a reduction of tax receivables balance.

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

### Debt

Our debt consists of notes, bank loans and vendor financing for property, plant and equipment, of which approximately 86 per cent. are at fixed rates. The following table summarises our debt position at 30 September 2006 and 31 December 2005 and 2004:

	At 30 September 2006 (unaudited)	At 31 December 2005	At 31 December 2004
	<i>(in thousands)</i>		
Long-term debt, including current portion:			
Notes .....	\$247,087	\$304,024	\$201,709
Bank loans .....	\$24,469	\$5,647	\$8,056
Vendor financing .....	\$34,226	\$42,421	\$55,849
Total .....	\$305,782	\$352,092	\$265,614
Short-term debt .....	\$40,855	\$19,554	\$17,554
Total debt .....	\$346,637	\$371,646	\$283,168

### Notes

#### *Wimm-Bill-Dann Ruble Notes*

On 21 December 2005, we issued five-year, 3,000,000 non-convertible ruble-denominated notes at a face value of 1,000 rubles each. The offering raised a total of approximately \$104.2 million at the exchange rate as of 31 December 2005. The notes are redeemable by us on 15 December 2010. The issue was priced at par with a coupon of 9 per cent. Interest is payable semi-annually in arrears commencing on 21 June 2006.

*Wimm-Bill-Dann Foods U.S. Dollar Notes*

On 21 May 2003, UBS (Luxembourg) S.A. issued 8.5 per cent. Loan Participation Notes due 2008 for the sole purpose of funding a \$150,000,000 loan to us. This loan will mature on 21 May 2008 and bears interest at an annual rate of 8.5 per cent., payable semi-annually in arrears on 21 May and 21 November of each year. Ten of our subsidiaries unconditionally, irrevocably, jointly and severally guarantee our obligation under this loan. The loan agreement contains a number of covenants including requirements to maintain certain financial ratios.

*Wimm-Bill-Dann Foods Ruble Notes*

On 15 April 2003, Wimm-Bill-Dann Foods issued 1,500,000 non-convertible ruble-denominated notes at a face value of 1,000 rubles each guaranteed by Vitafrukt, one of our juice subsidiaries. The offering raised a total of 1,500,000 thousand rubles (\$52.1 million at the exchange rate as of 31 December 2005 of which \$2.3 million had been repaid as at 31 December 2005). Interest was payable semi-annually in arrears commencing on 14 October 2003, and the interest rate for each coupon period was based on the Consumer Price Index, published by Goskomstat of the Russian Federation. The interest rates for the first, second, third, fourth, fifth and sixth coupon periods were 12.9 per cent., 11.98 per cent., 9.38 per cent., 8.48 per cent., 10.78 per cent. and 11.24 per cent., respectively. The notes were redeemable by Wimm-Bill-Dann Foods on 11 April 2006 and we redeemed the remaining outstanding notes on this date.

**Capital Expenditures**

Our total capital expenditures in 2005, excluding acquisitions, amounted to \$75.1 million, including cash spent and new vendor credits. Capital expenditures in our dairy segment amounted to \$59.9 million and related to the improvement of our existing dairy and cheese production facilities, warehouses facilities and quality control for the raw milk used in our production. Capital expenditures in our beverage segment amounted to \$12.9 million and related mainly to the installation of new production lines and other operating equipment at our production sites. Capital expenditures in our baby food segment amounted to \$1.8 million and related mainly to the modernisation of our recently acquired Experimental Baby Food Plant. Our corporate and common capital expenditures, including those relating to IT infrastructure and software, totalled \$0.5 million.

Our capital expenditures, excluding acquisitions, for the period from 2003 to the first nine months of 2006 are set forth in the following table:

	Nine months ended 30 September	Years ended 31 December		
	2006 (unaudited)	2005	2004	2003
		<i>(in millions)</i>		
Dairy segment .....	\$54.9	\$59.9	\$57.1	\$ 70.5
Beverage segment .....	9.1	12.9	8.8	33.6
Baby food segment .....	9.5	1.8	5.1	n/a
Corporate and common expenditures .....	1.4	0.5	1.6	3.1
Total capital expenditures .....	<u>\$74.9</u>	<u>\$75.1</u>	<u>\$72.6</u>	<u>\$107.2</u>

As of 31 December 2005, our capital commitments amounted to \$12 million mostly for construction projects. As of 31 March 2006, we had capital commitments of approximately \$35 million primarily for construction projects at our production sites and the purchase of farm-production equipment.

Acquisitions of Subsidiaries

During the first nine months of 2006 and the three years of 2005, 2004 and 2003, we made a number of acquisitions for a total consideration of \$13.4 million, \$24.3 million, \$5.3 million and \$9.9 million, respectively. Cash paid for the acquisition of subsidiaries for the first nine months of 2006 consisted of 1) \$4.4 million – cash paid for acquisition of subsidiaries, 2) \$5.7 million – cash paid for 20% minority's shares of Moscow Baby Food Plant 3) \$3.3 million – cash paid for minority's shares of our subsidiaries. The goal of these acquisitions was to expand into new markets, strengthen our operational presence in the regions of Russia and the CIS and to purchase minority stakes. The following table summarises our acquisitions for the first nine months of 2006 and the three years ended 31 December 2005, 2004 and 2003:

	Direct ownership interest acquired,	Cash cost of investment (in thousands)
<b>First nine months of 2006</b>	(%)	
Surgut .....	100	\$4,378
Trud .....	10.9	9
Minority's shares of Moscow Baby Food Plant .....	20	5,708
Other .....	various	3,339
<b>Total</b> .....	–	<b>\$13,434</b>
<b>2005</b>		
Essentuki Mineral Water Plant at CMW (Caucasian Mineral Water) Ltd ....	100	\$ 5,505
Nazarovskoe Milk OJSC .....	63.5	5,167
Pervouralsk City Dairy .....	100	119
Plemzavod Za Mir i Trud OJSC .....	100	1,689
Zavety Ilicha .....	99.3	344
Trud .....	63.5	420
Experimental Baby Food Plant LLC .....	100	3,527
Obninsk Dairy Plant .....	66.3	6,365
Siberian Dairy Plant (purchase of minority stake) .....	10	1,050
Other .....	various	120
<b>Total</b> .....	–	<b>\$24,306</b>
<b>2004</b>		
Tsaritsino Dairy Plant (purchase of minority stake) .....	6	\$3,406
Atamanskoe.....	88	904
Ramenskiy Plant (purchase of minority stake).....	25	534
Fruktopak (formerly Depsona) (purchase of minority stake).....	5	129
Other .....	various	344
<b>Total</b> .....	–	<b>\$5,317</b>
<b>2003</b>		
Siberian Cheese (warehouse) .....	100	\$2,633
Essentuki .....	100	4,118
Ufa Dairy Plant (purchase of minority stake) .....	48	3,138
Other .....	various	54
<b>Total</b> .....	–	<b>\$9,943</b>

### Critical Accounting Policies and Estimates

Critical accounting policies are those policies that require the application of management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments that are sufficiently sensitive to give materially different results under different assumptions and conditions. We believe that our most critical accounting policies are those described below.

#### *Estimates and assumptions*

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Examples include estimates of provisions for bad and doubtful accounts, obsolete inventory, and valuation allowance for deferred tax assets. Actual results could differ from those estimates.

#### *Allowance for Doubtful Accounts*

Allowance for doubtful accounts is established if there is objective evidence that we will not be able to collect the amounts due according to original contractual terms and reduces receivables to amounts expected to be collected. In estimating uncollectible amounts, we consider factors such as current overall economic conditions, industry-specific economic conditions, historical customer performance and anticipated customer performance. Our provisions cover individual balances where there is evidence that losses are probable as at the balance sheet date. We use significant judgment in estimating uncollectible amounts. While we believe our processes effectively address our exposure for doubtful accounts, changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in our Consolidated Financial Statements.

#### *Accounting for Income Taxes*

We assess the temporary differences resulting from differential treatment of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are recognised in our Consolidated Financial Statements. We assess our deferred tax assets on an ongoing basis by assessing our valuation allowance and adjusting the valuation allowance appropriately. In calculating our valuation allowance we consider the future taxable incomes and the feasibility of tax planning initiatives. If we estimate that the deferred tax asset cannot be realised at the recorded value, a valuation allowance is created with a charge to the statement of income in the period in which such assessment is made.

#### *Inventory Valuation*

We review our inventory balances to determine if inventories can be sold at amounts equal to or greater than their carrying amounts. The review includes identification of slow moving inventories, obsolete inventories, expired inventories and discontinued products or lines of products. The identification process includes historical performance of the inventory, current operational plans for the inventory, as well as industry and customer specific trends. Obsolete items are provided or written off. If our actual results differ from our expectations with respect to the selling of our inventories at amounts equal to or greater than their carrying amounts, we would be required to adjust our inventories accordingly.

#### *Depreciation periods for property, plant and equipment*

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

### *Impairment of Goodwill and Long-Lived Assets*

When events and circumstances occur indicating that the carrying amount of a long-lived asset (group) may not be recoverable, we estimate the future undiscounted cash flows expected to derive from the use and eventual disposition of the asset (group). If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the long-lived asset (group), we would then calculate the impairment as the excess of the carrying value of the asset (group) over the estimate of its recoverable amount, which is the higher of either fair market value or value in use. We carry out the impairment test for property, plant and equipment and goodwill when indicators exist.

For purposes of determining goodwill recognition, we perform a review for possible impairment of goodwill at least on an annual basis at the reporting unit level. If the fair value of the reporting unit is less than the carrying amount of the reporting unit including goodwill, we would then calculate the impairment loss as the excess of the carrying value of the goodwill over its implied fair value, which is to be recognised in same manner as the amount of goodwill is recognised in a business combination.

### **Accounting Pronouncements Effective as of 1 January 2006**

#### *Accounting for Exchanges of Nonmonetary Assets*

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*. SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions* (“APB No. 29”), is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. These provisions of SFAS No. 153 are effective the Company beginning 1 January 2006 and adoption of the provisions did not have any impact on the Company’s results of operations, financial position or cash flows.

#### *Inventory Costs*

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

The guidance is effective for inventory costs incurred by the Company beginning 1 January 2006. The Company has adopted provisions of SFAS No.151 from 1 January 2006.

The adoption of the provisions of SFAS No. 151 had an impact on the Company’s results of operations in the nine months ended 30 September 2006 of \$0.5 million.

#### *Accounting Changes and Error Corrections*

In May 2005, the Financial Accounting Standard Board (“the FASB”) issued SFAS No. 154, *Accounting Changes and Error Corrections*, which is a replacement of Accounting Principles

Board (“APB”) Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Changes in Interim Financial Statements*. SFAS No. 154 applies to all voluntary changes in accounting principle and changes the accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods’ financial statements of a voluntary change in accounting principle unless it is impracticable. In addition, SFAS No. 154 requires that a change in method of depreciation, amortisation, or depletion for long-lived, nonfinancial assets be accounted for as a change in accounting estimate that is

effected by a change in accounting principle. SFAS No. 154 is effective for any accounting changes or corrections of errors made by the Company beginning 1 January 2006.

No accounting changes or error corrections were made in the nine months ended 30 September 2006.

### New Accounting Pronouncements

#### *Accounting for Certain Hybrid Financial Instruments*

In February 2006, the FASB issued SFAS No. 155 *Accounting for Certain Hybrid Financial Instruments*, which amends FASB Statements No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. This Statement resolves issues addressed in

Statement 133 Implementation Issue No. D1, *Application of Statement 133 to Beneficial Interests in Securitised Financial Assets*. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133, establishes a requirement to evaluate interests in securitised financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation and clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. SFAS No. 155 amends Statement 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. These provisions of SFAS No. 155 are effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after 15 September 2006.

The adoption of the provisions of SFAS No. 155 is not expected to have an impact on the Company's results of operations, financial position or cash flows.

#### *Accounting for Servicing of Financial Assets*

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets*, which amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

This Statement requires that all separately recognised servicing assets and servicing liabilities be initially measured at fair value, if practicable. This Statement permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. An entity that uses derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities is required to account for those derivative instruments at fair value. These provisions of SFAS No. 156 are effective at the beginning of an entity's first fiscal year that begins after 15 September 2006.

The adoption of the provisions of SFAS No. 156 is not expected to have an impact on the Company's results of operations, financial position or cash flows.

#### *Accounting for Uncertainty in Income Taxes*

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48") *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognised in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 clearly scopes out income taxes from Financial Accounting Standards Board Statement No. 5, "Accounting for Contingencies". FIN 48 is effective for fiscal years beginning after 15 December 2006; however, early adoption is allowed. Management is still assessing the adoption impact of FIN48 on its financial position and results of operations.

### *Fair Value Measurements*

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*.

This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements.

This Statement is effective for financial statements issued for fiscal years beginning after 15 November 2007, and interim periods within those fiscal years.

The adoption of the provisions of SFAS No. 157 is not expected to have an impact on the Company's results of operations, financial position or cash flows.

### *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which amends FASB Statements No. 87, 88, 106, and 132(R).

This Statement improves financial reporting by requiring an employer to recognise the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognise changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organisation. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions.

An employer with publicly traded equity securities is required to initially recognise the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after 15 December 2006.

The adoption of the provisions of SFAS No. 158 is not expected to have an impact on the Company's results of operations, financial position or cash flows.

---

## Quantitative and Qualitative Disclosures About Market Risk

The following is a discussion of our market risk exposures from changes in both foreign currency exchange rates and interest rates.

We are exposed to market risk from changes in both foreign currency exchange rates and interest rates. Foreign currency exchange risks exist to the extent that our revenues are primarily denominated in Russian rubles and our costs are denominated in currencies other than Russian rubles. We are subject to market risk deriving from changes in interest rates on our floating and fixed rate debts which may affect the cost of our financing. We do not use financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks. We do not hold or issue derivatives or other financial instruments for trading purposes. We do not use derivatives or other financial instruments to limit our currency and interest rate risk exposures because the market for these types of financial instruments in Russia is not well developed and the costs of these instruments is relatively high. We are monitoring the market for these instruments and will consider their use if the related costs become lower.

### Interest Rate Risk

Our interest rate exposure results mainly from debt obligations. At 30 September 2006, we had debt amounting to \$346.6 million, which comprised variable-rate borrowings of \$8.2 million and fixed-rate borrowings of \$338.4 million, including vendor financing obligations of \$34.2 million.

Our fixed-rate bank debt consists entirely of short-term bank obligations which we roll over on a continuous basis at current market rate and, thus, are able to manage our interest rate risk exposure.

Our fixed-rate debt increased to \$338.4 million as a result of issuance of ruble-denominated notes in December 2005.

Our variable-rate debt consists of long-term bank obligations and is linked to LIBOR and EURIBOR.

We have not entered into transactions designed to hedge against interest rate risks, which may exist under our current, or future, indebtedness. Once the market in Russia for hedging instruments matures, we will assess our options for hedging interest rate risk and may enter into such arrangements.

---

# Business

## Introduction

We are one of the largest Russian manufacturers of dairy and juice products, with sales of \$1,189.3 million in 2004, \$1,399.3 million in 2005 and \$1,252.6 million for the first nine months of 2006. Our reportable business segments are dairy products, beverage products and baby food products. In 2004 and 2005, the dairy segment accounted for 69.2 per cent. and 72.0 per cent. of our sales, the beverage segment, which includes juice and bottled mineral water products, accounted for 25.4 per cent. and 21.7 per cent. of our sales and the baby food segment accounted for 5.4 per cent. and 6.3 per cent. of our sales, respectively. In the first nine months of 2006, 74.1 per cent. of our net revenues were derived from the sale of dairy products, 19.3 per cent. from the sale of juice and water products and 6.6 per cent. from the sale of baby food products. Our principal geographic market is Russia, which approximately accounted for 94 per cent. and 92 per cent. of our sales in 2004 and 2005, respectively. However, we also have production facilities in certain Commonwealth of Independent States, or CIS, countries, including Ukraine, Kyrgyzstan and Uzbekistan.

In the first nine months of 2006, our net income more than tripled to U.S.\$66.2 million from U.S.\$21.7 million in the same period in 2005, and sales increased by 22.1 per cent. year-over-year, including sales increases of 26.3 per cent., 6.3 per cent. and 29.8 per cent. in the dairy, beverage and baby food segments, respectively. Our net income in 2005 increased by 31.7 per cent. to U.S.\$30.27 million compared to U.S.\$22.97 million in 2004.

In the dairy segment, our gross margin in 2004, 2005 and the first nine months of 2006 improved primarily due to higher average selling prices, general price increases and ruble appreciation. In addition, the cost of raw milk increased only moderately compared to prior years. In 2005 comparing to 2004 gross margin in the beverage segment increased mainly due to cost control measures, general price increases and ruble appreciation against the Euro, which had a favourable impact on raw material costs denominated in Euros. In the first nine months of 2006, gross margin was lower than in the same period last year mainly due to higher concentrate and sugar prices, combined with the higher share of lower-margin brands in our beverages sales mix. Gross margin in the baby food segment grew in 2004, 2005 and the first nine months of 2006 due to a moderate increase in the cost of raw milk compared to prior years, higher average selling prices as a result of general price increases and a shift in our product mix to include more value-added products.

Our selling and distribution expenses decreased as a percentage of sales from 13.8 per cent. to 13.2 per cent. in the first nine months of 2006 compared to the same period in 2005, and decreased from 14.6 per cent. to 13.7 per cent. in 2005 as compared to 2004. Over the past three years, we have been constructing new capacity, modernising existing capacity and making strategic acquisitions. Our capital expenditures (excluding acquisitions) in 2004, 2005 and the first nine months of 2006 were U.S.\$72.6 million, U.S.\$75.1 million and U.S.\$74.9 million, respectively.

Our operating cash flow for the first nine months of 2006 increased by 69 per cent. to U.S.\$100.4 million from U.S.\$59.4 million for the same period in 2005. Operating cash flow in 2005 increased by 58.9 per cent. amounting to U.S.\$113.9 million compared to U.S.\$71.7 million in 2004.

At 31 December 2005, we had a total of U.S.\$371.6 million in indebtedness (consisting of notes, vendor financings for property, plant and equipment and loans). At 30 September 2006, our consolidated total debt was approximately U.S.\$346.6 million.

## Business Overview

Our principal geographic market is Russia with the Central region, which includes Moscow, being the most significant. Particularly, in 2005 and in the first nine months of 2006, our dairy product sales in the Central region of Russia were approximately 48 per cent., and 44 per cent. of our total dairy sales, respectively, while our baby food sales in Moscow and the Moscow region were approximately 95 per cent. and 80 per cent. of overall baby food sales, respectively. At the same time, we are expanding our product offerings in

the regions, diversifying our sales in terms of geography and strengthening our presence in the perspective regional markets. In 2005 and in the first nine months of 2006 the fastest growing regions in our dairy sales portfolio were South region, North West region, which includes St. Petersburg, and Siberia and the Far East.

Since our founding in 1992, we have become the market leader in Russia in the dairy market and one of the market leaders in the juice market. In the dairy market, according to an AC Nielsen research of 24 major cities located throughout Russia, including Moscow and St. Petersburg, we were the market leader by the end of September of 2006 with approximately 29 per cent. market share in terms of value. In the Russian juice market, according to a Business Analytical survey of all of Russia, we had an 18 per cent. market share in terms of value during the first nine months of 2006.

We currently have 34 manufacturing facilities in Russia and other countries of the CIS, as well as distribution centres in 26 cities throughout Russia and the CIS. We currently employ over 17,000 people.

Our mission is to help the entire family live healthier by enjoying our nutritious and delicious food and beverage products everyday throughout their lives.

We offer our consumers a full range of quality branded dairy products, juice, water and baby food products, using carefully selected raw materials, modern production technology and strict quality control. All of our products are made according to our own recipes and reflect our understanding of consumer demand.

Our principal dairy products include:

- Traditional products, such as sterilised and pasteurised milk, butter and cream, as well as traditional sour-milk products such as kefir, cottage cheese, soft cottage cheese and sour cream;
- Yogurts and dairy desserts, such as traditional and drinking yogurt, mousse, fruit-flavoured milk and kefir, puddings and flavoured cottage cheese; and
- Cheese products, including hard yellow and processed cheese.

Our principal beverage products include:

- Juice and nectars produced from juice concentrate;
- Enriched juice-based drinks;
- A traditional berry-juice-based drink made from natural berries; and
- Bottled natural mineral water.

Our baby food products include:

- Liquid dairy products for infants under the age of three;
- Juices for infants under the age of three;
- Meat, fish, chicken, fruit and dairy purees for infants under the age of three; and
- Products for pregnant women and nursing mothers.

We support strong national brands, as well as local brands, which are well established in the regions. The following chart illustrates our estimates of the current market segment positioning for our major brands, as well as a general description of the purchasers each market segment covers:

<b>Segment</b>	<b>Indication of purchasing power</b>	<b>Traditional products</b>	<b>Yogurts and dairy desserts</b>	<b>Health-oriented enriched products</b>	<b>Cheese Products</b>
Premium	High enough income to buy major household appliances, monthly income above \$500 per family member		“Morand”	“NEO”	
Upper-middle and middle	High enough income to buy major household appliances	“Little House in the Village”	“Ginger Up”, “Chudo”	“Bio-Max”	“Lamber”
Middle and lower-middle	High enough income to buy food and clothing, but not enough to buy major household appliances	“Happy Milkman”, “Slavyanochka”, “Kuban Cow” and “M”	“Frugurt”, “Lada”	“Our Doctor”	“Happy Milkman”
Mass	Income covers food purchasing	“Zavetny Bidonchik”			

In the traditional dairy product markets, according to an AC Nielsen study of 24 major cities located throughout Russia, as of September 2006, we lead the market with approximately a 29 per cent. market share in terms of value. In this segment, we compete primarily with local producers, such as Unimilk, as well as with a number of smaller producers in other regions of Russia. In the enriched dairy product market, our market share is 28 per cent. in terms of value, and we compete primarily with Groupe Danone and Petmol. In the yogurt and desserts market, we are the market leaders with almost a 41 per cent. market share in terms of value. We compete with foreign producers such as Danone, Campina, and Ehrmann who continue to invest in their businesses in Russia.

**Beverage products and brands**

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

Segment	General Purchaser Characteristics	Juice and nectars produced from juice concentrate	Traditional berry-juice-based drinks	Other juice-based drinks	Mineral water
Premium	<ul style="list-style-type: none"> <li>• Aged 20-45</li> <li>• Mainly working women with high incomes</li> </ul>	“Rio Grande”			
Upper-middle	<ul style="list-style-type: none"> <li>• Aged 20-45</li> <li>• Men and women in the middle to upper-middle income bracket</li> </ul>	“J-7”	“Wonder Berry”	“J7 Bio”, “J7 Idea” and “DJ”	“Essentuki”
Middle	<ul style="list-style-type: none"> <li>• Aged 25-45</li> <li>• Primarily married men and women with children in the middle income bracket</li> </ul>	“100% Gold”			“Sanctuary Valday”, “Sanctuary Beshtau”
Lower-middle	<ul style="list-style-type: none"> <li>• Aged 25-45</li> <li>• Men and women typically with children and below average incomes; family oriented</li> </ul>	“Lovely Garden”	“Lovely Garden” (stewed fruit)		Novoessentuk-skaya”

Our principal competitors in the Russian juice market are Lebedyansky, based in Lipetsk region, Multon based in St. Petersburg (was purchased by Coca-Cola in 2005), and Nidan, a Novosibirsk-based Russian company. In the mineral water market our primary competitors are Pepsi’s “Aqua Minerale” and Coca-Cola’s “BonAqua”, as well as Borzhomi, Narzan and Saint Springs, all of which are produced in the CIS.

**Baby food products and brands**

Our baby food products consist of products sold under the “Agusha” brand, including liquid dairy baby food, juice, meat purees and products for pregnant and nursing women.

We are currently developing our baby food division by focusing on the regional expansion of our sales and increased production, including through co-packing arrangements with certain third-party facilities. We also plan to launch new products, as well as expand the range of our existing products.

To further our development strategy, we acquired the Experimental Baby Food Plant in the Kursk region in July 2005, and modernised the facility during 2006. The plant sources certain of its raw materials from its own fruit orchards, and our acquisition of the plant has allowed us to expand our baby food product range to include fruit and vegetable purees.

In liquid dairy products for infants market segment our main competitor is a Russian dairy producer Unimilk. Nestlé and Nutricia are our main competitors in the market segment of powdered formula and cereals. In fruit and vegetable purees, and juice for infants market segment our major competitor is Lebedyansky.

### **History and Development**

We were incorporated as an open joint stock company in the Russian Federation under Russian legislation on 31 May 2001 with registered number R-15968.16 (OGRN 1037700236738). We trace our history back to 1992, when a group of individuals formed an enterprise which began leasing a production line at the Lianozovo Dairy Plant and purchasing juice concentrates and packaging materials. On 25 November 1992, we produced the first carton of juice carrying the Wimm-Bill-Dann brand name. We selected this brand name to attract consumers who preferred products with foreign sounding names due to perceived higher quality and novelty and, since its introduction, the “Wimm-Bill-Dann” name has become a brand name recognised in a substantial percentage of Russian households.

To take advantage of the opportunities arising from the privatisation of Russian state-owned assets, our current shareholders then began acquiring shares in the Lianozovo Dairy Plant in Moscow, and continued to expand their juice product enterprises. Following their acquisition of a majority stake in the Lianozovo Dairy Plant in 1995, they added dairy products to their portfolio, thus becoming a dairy and juice producer. Our growth has been accomplished, in part, through significant acquisitions, including the following:

- In 1995, we acquired majority control of the Lianozovo Dairy Plant;
- In 1996 and 1997, we acquired majority stakes in the Moscow Baby Food Plant, the Tsaritsino Dairy Plant and the Ramenskiy Plant;
- In 1998 and 1999, we began to expand into regions outside Moscow, acquiring dairy plants in Novosibirsk, Nizhny Novgorod and Vladivostok;
- In 2000, 2001 and 2002, we acquired majority stakes in dairy plants in Ufa, Bashkortostan and the Krasnodar region in Russia, as well as dairy plants in Kiev, Ukraine and Bishkek, Kyrgyzstan;
- In 2001, we acquired 100 per cent. interests in dairy plants in the Altaysky and Voronezh regions of Russia;
- In 2002, we acquired control of three dairy plants in the Krasnodar, Belgorod and Samara regions of Russia;
- In 2002, we acquired control of a dairy plant in Kharkov, Ukraine;
- In 2002, we acquired a 100 per cent. interest in the Roska Dairy Plant (renamed Baltic Milk in 2004) in St. Petersburg;
- In 2002, we acquired control of Depsona (since renamed Fruktopak) in Tula and a large warehouse complex in the Moscow region;
- In 2002, we acquired control of a dried milk plant in Buryin, Ukraine;
- In January 2003, we acquired a 100 per cent. interest in Siberian Cheese, a refrigeration and warehousing facility in Novosibirsk adjacent to our principal Siberian dairy production facility;
- In August 2003, we acquired underground wells in the Essentuki area of Russia and a water processing and bottling factory which produces “Essentuki” brand mineral water through our purchase of 100 per cent. interests in the companies Healing Springs and Geiser;

- In December 2004, we acquired Atamanskoe farm, a raw milk production company;
- In April, July and September 2005, we acquired three raw milk production companies, Plemzavod Za Mir i Trud, Zavety Ilyicha and Trud Farms;
- In July 2005, we acquired control of the Obninsk Dairy Plant in the Kaluga region;
- In July 2005, we acquired a 100 per cent. interest in the Experimental Baby Food Plant in the Kursk region;
- In October 2005, we acquired a 100 per cent. interest in the Essentuki Mineral Water Plant at CMW (Caucasian Mineral Waters) in the town of Essentuki in the Stavropol region;
- In December 2005, we acquired a controlling stake in Nazarovskoe Milk in the Krasnoyarsk region;
- In December 2005, we acquired a 100 per cent. interest in the Pervouralsk City Dairy Plant in the Sverdlovsk region;
- In January 2006, we increased our aggregate ownership in the Moscow Baby Food Plant to 97.3 per cent.;
- In September 2006, we acquired a 100 per cent. interest in the Surgut City Dairy Plant in Western Siberia;
- In November 2006, we acquired 93.74 per cent. control in the Moscow-based dairy producer Ochakovo;
- In December 2006, we acquired 100 per cent. control in the Omsk-based dairy producer Manros; and
- In December 2006, we acquired 83.36 per cent. control in MOLKA, one of the largest dairy enterprises in Irkutsk region.

Our operations are currently organised into three separately reported segments: dairy products, beverages and baby food, all operating under the umbrella of our holding company, Wimm-Bill-Dann Foods OJSC, which was incorporated on 31 May 2001. In addition, at the end of 2004, we created a separately managed non-core business unit called “Agro” for the purpose of buying and managing a select number of dairy farms in certain Russian regions. “Agro” is currently reported as part of our dairy division.

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

According to Standard & Poor’s global scale, our corporate credit rating is B+, and Moody’s Investors Service ranks our Corporate Credit rating as B1. On May 2006, Standard & Poor’s Governance Services announced the upgrade of our Corporate Governance Score (CGS) from 7 to 7+, which makes our score the highest rating in Russia. The increase in the score reflects the effective work of the Board of Directors and, in particular, the influence of independent directors in the decision-making process and the adherence of the controlling shareholders to the highest standards of corporate governance.

Our legal name is Wimm-Bill-Dann Foods OJSC, and we are incorporated as an open joint stock company under the laws of the Russian Federation and registered with the Moscow Inter-District Inspectorate No. 39 of the Russian Ministry of Taxes and Duties under the state registration number 1037700236738. Our head office is located at 16/15 Yauzsky Boulevard, Moscow 109028, Russian Federation, and our telephone number is +7 495-105-5805. We maintain a website at <http://www.wbd.com>. The information on our website is not a part of this Offering Memorandum. We have appointed CT Corporation System, 111 Eighth Avenue, New York, New York 10011, as our authorised agent for service of process for any suit or proceeding arising out of or relating to our shares, ADSs or the deposit agreement.

### Business Strategy

We aim to retain our position as a leading nationwide producer of quality food and beverage products and to expand our production and sales in order to attain higher revenues, cash flow and earnings, in part, by making investments in sales and marketing. We also aim to deliver better products more efficiently and at the right price to our consumers. To achieve these objectives, we use the following strategies:

- Brand building and innovation.
- Improve the distribution of our products to market.
- Strengthen human resource capability.
- Improve operating efficiencies and reduce costs.
- Expand our geographic reach and production capacity.

### Brand building and innovation

In an increasingly competitive marketplace, we believe effective brand management is key to maintaining our leading positions in the market segments where we operate. We have developed key brands in specific segments into umbrella brands. This allows us to launch new products and enter new product niches with recognised and trusted brands. At the same time, we have elevated some strong local brands into regional and national brands. Maintaining long-established regional brands allows us to fit our marketing approach to specific regional tastes and leverage existing brand identities:

- Maintaining a leading market position through key core brands

We believe that, as the Russian dairy and beverages markets mature, only leading national and regional brands will be able to maintain their competitive positions, and that significant consolidation is likely. We will continue to focus on our brands and products with leading market shares in their respective segments. At the same time, we will continue to develop and launch new products and occupy new product niches. We are focusing on promoting health and wellness lifestyle through marketing programs to convey a consistent image of high quality products across all business segments.

- Reviewing our brand portfolio and focusing our marketing efforts on key brands

We will continue to review our brand portfolio with a view towards maintaining only our best-known brands, brands with high operating margins and new brands with significant potential. Part of this effort will include improving our stock keeping unit management system which tracks our products. We intend to build upon and strengthen our best-known brands by consolidating them under our various existing product groups. Our umbrella brands are also instrumental in entering new markets and launching new products. As part of this process, we are shifting our branding focus from specific product categories to specific consumer segments. For example, our Neo branded enriched and juice-containing dairy products, launched in 2004, have established market leadership in these value-added niches around a wider brand identity promoting fitness and a healthy diet.

- Increasing share of innovative, value-added products

We intend to continue to invest in developing new value-added products and to increase our marketing and new product development expenditures in order to increase our production and sales volume of value-added products and brands which allow us to win market share. In particular, we are seeking to increase our sales of yogurt, premium cheese, juice-based products, mixed juices and new flavour juice products as a percentage of our total sales volume through new product launches and management of our existing portfolio of brands and products. Our most recent product offering, chocolate truffles, is very different from the products we have offered in the past under our traditional niches. We offer the truffles under our Morand brand at the higher-end of the chocolate market. In November 2006, we appointed a Head of Marketing and Innovation for the group. As well as

managing marketing, this individual is responsible for our research and development efforts. As a result, we hope to be able to identify emerging opportunities in our fast-moving consumer markets and respond rapidly by developing and launching new products to stay at the forefront of these trends.

- Sustain high quality of our products

We have uniform quality standards for all of our enterprises. When we enter regional markets, we seek to raise the standards of consumption and the expectations of consumers in these markets by offering a wide range of quality products at reasonable prices. We also aim to offer products in consumer-friendly and innovative packaging across a range of market sectors. Recently, we appointed a Head of Quality Control for the group to ensure that the quality and taste of our products are consistent wherever they are produced and sold, whether in Ukraine, Central Asia or the regions of Russia.

- Leveraging local brands

While we believe in consolidating and rationalising the product groups of businesses and eliminating poorly performing local brands, we also maintain a small number of well established local and regional brands that have a strong existing identity and appeal to local preferences and cultural identities. For example, our Kubanskaya burenka brand has a strong resonance in southern Russia where certain national brands such as Little House in the Country have less cultural relevance.

### **Improve the distribution of our products to market**

We distribute our products through a variety of channels, including independent distributors and wholesalers, supermarket chains, small- and medium-sized grocery stores, open-air markets and restaurants. Our general distribution strategy is to increase the share of direct distribution to retail chains, while maintaining our relationship with independent distributors. Increased direct distribution to retailers allows for greater flexibility with short-lived dairy products and should improve gross margins and increase our marketing potential, although direct distribution will also result in higher transportation and sales costs. To this end, we have expanded our proprietary distribution network. We will continue to invest in our own sales force, focus on trade and point of sale marketing, while implementing new merchandising standards to focus on impulse purchase high margin products. Our key strategic initiatives aiming to improve the distribution of our products to market are as follows:

- Centralised Key Account Management

In order to build strong relationships with major customers, we have adopted a concept of key account management which enables us to negotiate better trade terms with such customers. We have recently introduced a Centralised Key Account Management system for all business units, allowing us to take advantage of both economies of skill and scale in dealing with our large customers.

- Increasing direct distribution to retail chains

As a percentage of total sales in 2005, in terms of product value, we sold approximately 26 per cent. of our dairy products, 12 per cent. of our beverage products and 18 per cent. of our baby food products, respectively, to supermarket chains in Russia. We will continue our efforts to increase our direct distribution to retail chains while maintaining or reducing our relationships with independent distributors. Direct distribution can enable us to more efficiently monitor supply and demand and respond to market fluctuations with greater flexibility.

- Supply chain system

We intend to implement a nationwide supply chain system that will enable us to maintain our products' integrity, freshness and nutritional value, monitor delivery logistics at all stages, and thereby optimise efficiency while minimising delivery costs.

- Minimising dairy distribution costs through local production

We intend to continue to pursue a strategy of manufacturing dairy products in the same region in which they are consumed, decreasing our distribution costs, while at the same time increasing our profit margins for such products.

### **Strengthen human resource capability**

Operating in both maturing markets, such as Moscow and St. Petersburg, and emerging markets, such as Russia's regions and CIS markets, we are developing our human resource capability on the central group and regional levels to attract and retain skilled management with global consumer industry experience. At the same time, we believe in promoting talented people within the organisation, moving people not only up the career ladder, but also into other parts of the business and other regions. In our production facilities, we have sought to make our existing employees more efficient through installation of new equipment and training. We are undertaking following strategic actions in order to strengthen human resource capability:

- Attracting world-class management talent

In recent years we have recruited both Russian and foreign managers with experience working at multinational consumer goods firms in order to bring international best practices to the company. We have appointed a CEO with many years of experience running Coca Cola bottling companies in the CIS, Western and Eastern Europe. In November 2006, we also appointed a Group Head of Marketing and Innovation with extensive experience in marketing and sales with multinational companies, including Wella Haircare, Campbell Soup Company and Coca-Cola in Australia, Russia, Ukraine, Belarus and China.

- Creating incentives for our employees

We fully understand that the success of our business is a direct result of the work of our employees and we have had considerable success in fostering future management talent on the enterprise and group level. We have instituted success-based incentives for managers on the regional and group level. At the same time, we have worked with outside providers and our own team of professional trainers, as well as coaches chosen from a pool of the most experienced managers to provide resources for continued educational opportunities within the Corporate University. We aim to ensure that we continue to be seen as one of Russia's most attractive employers for promising graduates while retaining talented employees.

- Maximising efficient use of personnel

We are introducing a performance appraisal system linked to the creation of individual development plans for our 300 most senior managers. We are currently working on putting in place management assessment and succession planning throughout the company. We are also working on developing an open and trusted environment that enables effective performance.

### **Improve operating efficiencies and reduce costs**

We intend to maintain the high quality of our products, reduce our costs, increase our cash flow and improve employee productivity through:

- Modernising existing production facilities

Following the overhaul of several of our production facilities during 2003 and 2004, we will continue to modernise our plants as required in order to reduce our production, raw material and labour costs through higher operating efficiencies and lower raw material wastes.

- Controlling costs

In order to ensure sustainable profit growth, we have launched a new cost optimisation program that optimises the size and scale of the group and integrates a number of functions across business areas.

We have identified significant cost-saving opportunities, including centralised procurement and planning in the dairy business to both maximise productivity and target capital investments. In addition, we have begun sharing across business areas and enterprises “back-office” functions, such as legal and IT. In addition, we aim to accelerate the ongoing process of consolidating legal entities to reduce the costs and complexity in our corporate structure. We also initiated a restructuring program with the aim of reducing and optimising our employee headcount. We have sought to maximise employee efficiency by reducing employee numbers while increasing production capacity through installing new equipment and changing production patterns to meet production needs on a local, regional and group level. As a result, we were able to reduce our employee headcount at certain of our plants during 2006, and expect to continue to optimise our overall employee headcount during 2007. We also intend to continue to increase gradually the share of our raw materials acquired from local suppliers, which tend to be cheaper than imported materials.

- Improving working capital

We will continue our efforts aimed at decreasing our stocks of raw materials, packaging materials and finished goods at all of our production facilities while endeavouring to negotiate the most favourable payment terms possible with our suppliers.

- Creating our own raw milk base

To counterbalance the general and seasonal increases in raw milk prices, we are taking a number of steps, including the leasing of milking and refrigeration equipment to selected dairy farms, in order to ensure consistent quality and quantities of milk at pre-determined prices.

### **Expand our geographic reach and production capacity**

Since 2000, we have acquired production units in various regions of Russia and the CIS. By establishing large production facilities in regions with high population density and available raw materials, we have been able to avoid high transportation costs and take advantage of lower labour costs and milk resources, which can be cheaper in the regions than in Moscow. While we believe that we have achieved national reach and anticipate fewer acquisitions in the future, the fragmented nature of the dairy industry in Russia and the CIS will continue to give rise to opportunities for strategic acquisitions, constructing new capacity and attracting new customers. In turn, we expect these combined factors, along with the geographic expansion of our distribution network, to bring about an increase in our geographic coverage. We intend to continue to implement this strategy through acquisition and construction of production capacity and new equipment, including the selective acquisition of plants, as follows:

- Dairy

We have developed and have been actively implementing since 2002 a regional expansion program which contemplates the acquisition of prominent dairy enterprises in Russia and the CIS, as well as significant investment, as necessary, into their modernisation. We strive to ensure that our products are produced close to the markets where they are sold, reducing transportation costs and allowing us to respond more rapidly to changing consumption patterns. The recent acquisitions of Surgut Dairy Plant and Omsk-based Manros allow us to strengthen our market position in the fast-growing Siberian region, where continued economic growth is resulting in a growing demand for our product offerings. The acquisition of Ochakovo with its well-established national brands and strong customer loyalty allows us to extend our product offering, and to expand our production capacity to manufacture our top quality products. Following acquisitions, we review and optimise the local product portfolios and replace their management systems with our own.

- Beverages

Over the past three years, we have increased our juice production capacity at existing plants that we believe have the potential to become supply centres for those regions that offer substantial potential for sales growth. For example, we converted our Ramenskiy Plant in Moscow into a juice-only production plant in 2004. We have also been revising our juice distribution network, aiming to make

it more efficient with a wider geographical reach. We will consider carefully selected opportunities in the beverage segment should attractive opportunities arise.

- **Baby Food**

In line with our strategy to develop our baby food sales, we have been investing in the modernisation of the Moscow Baby Food Plant and acquired the Experimental Baby Food Plant in Kursk, Central Russia in order to diversify into other categories of baby food and to further expand into the regions of Russia. We undertook a modernisation program for our new plant, and in 2006 began producing certain juices for babies, and fruit and vegetable purees.

### **Competitive strengths**

We believe that we are well positioned to capitalise on opportunities in the Russian dairy, juice and baby food markets because we enjoy a number of competitive advantages, including a large production capacity and high quality products, as well as ongoing new product development, a large geographical coverage, centralised management and extensive marketing capabilities. Our main competitive strengths are as follows:

#### **Strong brands**

Our brands rank highly in most product categories, helping us to compete against the non branded products of small local producers and the branded products of larger local and Western manufacturers of dairy and juice products. We have promoted brand awareness over many years through significant advertising and marketing expenditures, totalling approximately \$54.3 million in 2004, \$57.9 million in 2005 and \$46.6 million in the first nine months of 2006.

#### **Diversified brands**

Our branding policy is designed to ensure that we reach customers in all market segments with the right mix of brands, brand images and packaging formats. We have strong national brands, as well as local brands, which are well established in the regions. In general, we seek to maintain at least one brand within each market segment, and to develop new brands to expand our coverage of attractive segments. Such coverage allows us to shift our production capacity to meet changing consumer demand patterns.

#### **Broad proprietary distribution network**

Our broad network of distribution centres allows us to reach customers across most of Russia. Additionally, we produce our dairy products in several regions throughout Russia. By manufacturing dairy products in the same region in which they are consumed, we are able to increase the geographic reach of our short shelf-life products and keep our distribution costs and, consequently, the price of our products relatively low.

#### **New product development and marketing focus**

We focus on entering new markets and developing and launching new dairy, beverage, and baby food products with appealing flavours and nutritional value. In addition, we re-launch selected products with updated and improved qualities. We believe that our new product development and marketing efforts enable us to respond effectively to competitive developments and changing consumer demands.

#### **Modern production assets and technology**

We have made substantial investments to maintain and enhance the quality of our product offerings, lower costs and increase productivity. From 2003 to 2005, we invested approximately \$284.2 million, and for the first nine months of 2006, we invested approximately \$72.8 million, in the modernisation of our existing production facilities and acquisitions of new production assets. Our main production plants are capable of producing a diverse and evolving product range, and enabling us to adapt quickly to changes in consumer

demand on a seasonal basis or otherwise. We have completed the main phase of our extensive modernisation program and have begun cost cutting programs at all of our plants.

**Access to external capital**

We estimate that our future capital expenditures will continue to be significant, and we plan to finance such expenditures with the net proceeds from this offering, expected cash flows from operating activities, equipment supplier financing and other external sources of financing. We believe that the size of our company and our credit history give us an advantage over our small domestic competitors in the ability to obtain the financing necessary to continue investing and to meet potential market growth.

**Operating Synergies**

We capitalise on synergies within our group of companies through the pooling of sales, purchasing and administrative resources, and strive to benefit from economies of scale. We also use the same marketing approach in each business and take advantage of synergies within the group to the extent possible.

**Stable access to raw milk**

Dairy producers in Russia must compete for access to domestically-produced raw milk, given the high cost of imported raw milk. We believe that our support to agricultural enterprises that supply milk to our production plants through the supply of equipment leasing gives us a significant advantage over our competitors by helping to ensure our access to sufficient quantities of raw milk at commercially reasonable prices.

**Strong management team**

Our company has a strong and experienced management team which has introduced a modern corporate culture focused on human resources as the key factor in increasing the productivity and the profitability of its operations. Our management team has significant experience in all aspects of the Russian and CIS dairy, beverage and baby food product industries, including production, marketing, advertising, financing and the acquisition of dairy and juice companies.

---

## Regulation

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

### Government Entities Involved

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

*The Ministry of Health Protection and Social Development.* This Ministry is authorised to issue regulations in various areas, including with respect to sanitary and epidemiological safety and consumer rights protection. The Ministry supervises and coordinates its subordinate bodies, including, among others, the Federal Service for Supervision in the Area of Protection of Consumer Rights and Human Welfare.

*The Federal Service for Supervision in the Area of Protection of Consumer Rights and Human Welfare.* This Service is the principal federal body authorised to supervise sanitary and epidemiological issues in the Russian Federation. The Service enforces sanitary-epidemiological rules (which include sanitary rules, sanitary standards and hygienic requirements), monitors the sanitary conditions of production sites and equipment, fulfilment of sanitary standards for raw material and finished product storage at manufacturing plants, compliance with sanitary standards for the storage and sale of food products, their quality and safety at wholesale and retail outlets and businesses catering to the public. The Service also carries out inspections of sellers' premises.

*The Federal Agency for Technical Regulation and Metrology.* This Agency manages government property in the sphere of technical regulation and metrology. On a temporary basis, until such functions are transferred to other federal authorities, the Agency oversees compliance with obligatory general and industrial standards. This Agency is subordinated to the Ministry of Industry and Energy.

*The Federal Service for Veterinary and Fito-Sanitary Supervision.* This Service supervises the sanitary safety of raw food materials used in the production of food products and beverages where such raw food materials are derived from animals.

### Applicable Food and Health Legislation

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

*The Federal Law on Quality and Safety of Food Products* establishes a general framework for ensuring that food products and materials used in their production conform to certain quality, safety and sanitary requirements and provides for the state registration and certification of food products once they so conform. It also establishes general requirements for the manufacturing, packaging, storage, transportation and sale of food products and beverages, and for the destruction of poor-quality and unsafe products.

*The Federal Law on the Sanitary Epidemiological Well Being of People* requires food products and beverages, and the raw materials used in their production, to meet certain sanitary standards and health requirements and to have no harmful effects. Products that do not conform to sanitary rules and health requirements and represent a danger to consumers must be withdrawn immediately from production or sale. As a result, the fulfilment of sanitary standards and health requirements is an obligatory condition for the production, import and sale of food and beverage products in the Russian Federation.

*The Federal Law on Technical Regulation* provides for the development, enactment, application and enforcement of obligatory technical requirements and the development of voluntarily standards relating to manufacturing processes, operations, storage, transportation, selling and utilisation. Until such technical requirements are developed and adopted, the existing standards are mandatory to the extent they are necessary to secure the protection of safety and health, environmental protection and consumers' rights.

*The Governmental Regulation on Monitoring of Quality and Safety of Food Products and Health of People* establishes a procedure for supervising and monitoring the quality and safety of food products.

*The Government Regulation on State Registration of New Food Products, Materials and Goods* provides for the obligatory state registration of certain food products, including mineral water, baby food and dairy products enriched with vitamins and/or other microelements. Food producers intending to develop and offer a new food product to the public are required to file an application for the product's state registration and incorporation into the State Register of Permitted Food Products. Such applications are reviewed by the Federal Service for Supervision in the Area of Protection of Consumer Rights and Human Welfare (together with the Federal Service for Veterinary and Fito-Sanitary Supervision with respect to products derived from animals) within 40 days of their filing.

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

### Registration Requirements

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

The product registration process includes:

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

The state registration of products is carried out by the Federal Service for Supervision in the Area of Protection of Consumer Rights and Human Welfare (together with the Federal Service for Veterinary and Fito-Sanitary Supervision with respect to products derived from animals).

---

# Management

## Directors and Senior Management

Our directors and executive officers, and their respective years of birth and positions as of the date of this Offering Memorandum were as follows:

Name	Year of Birth	Position
David Iakobachvili .....	1957	Chairman
Sergei A. Plastinin.....	1968	Director
Guy de Selliers <sup>(1)</sup> .....	1952	Director
Mikhail V. Dubinin.....	1969	Director
Michael A. O’Neil .....	1945	Director
Alexander S. Orlov.....	1948	Director
Vladimir N. Sherbak <sup>(1)</sup> .....	1939	Director
Earnest Linwood Tipton <sup>(1)</sup> .....	1934	Director
Victor A. Tutelyan .....	1942	Director
Evgeny G. Yasin .....	1934	Director
Gavril A. Yushvaev.....	1957	Director
Tony D. Maher.....	1956	Chairman of the Management Board
Dmitry A. Anisimov .....	1971	Chief Financial Officer, Management Board Member
Vera V. Eliseeva .....	1958	Head of Human Resources, Management Board Member
Marina G. Kagan .....	1968	Head of Public Affairs, Management Board Member
Gennady K. Krainov.....	1951	Director of Information, Analysis and Control Department, Management Board Member
Oleg E. Kuzmin .....	1969	Head of Dairy Business Unit, Management Board Member
Silviu Popovici .....	1968	Head of Beverages Business Unit
Grant Winterton.....	1970	Group Head of Marketing and Innovations

Note:

(1) Member of the Audit Committee.

*David Iakobachvili* has served as Chairman of our Board of Directors since May 2001. In addition, Mr. Iakobachvili serves as the chairman of the boards of directors of a number of our production facilities, including Wimm-Bill-Dann (former Lianozovo Dairy Plant), Tsaritsino Dairy Plant, Moscow Baby Food Plant, Ramenskiy Plant, Nizhny Novgorod Dairy Plant, Siberian Dairy Plant, Vladivostok Dairy Plant, Timashevsk Dairy Plant, Bishkek Dairy Plant, Gulkevichy Dairy Plant, Novokuybishevsk Milk, Ufa Dairy Plant and Kiev Dairy Plant. He also serves on the boards of directors of ZAO RusAgroProject, ZAO Agricultural Complex Gorki-2 and ZAO Plemhoz Naro-osanovsk. Mr. Iakobachvili is chairman of the board of directors of ZAO “Metelitzha-Club”, a member of the board of directors of Shikhan OJSC and Airport Financial Services Limited. He also serves on the boards of a number of national and international organisations, associations and unions, including non-commercial partnership RusBrand, Russian Union of Industrialists and Entrepreneurs, Russian Chamber of Commerce and Industry, National Corporate Governance Council, U.S.-Russia Business Council, Russian-American Business Council, Russo-British Chamber of Commerce, Moscow International Business Association, Senate of Economic Advisers of the European Democracy Forum, World Economic Forum and Monaco World Summit. Mr. Iakobachvili owns 8.33 per cent. of our outstanding common stock in the form of shares and 1.79 per cent. in the form of GDSs.

*Sergei A. Plastinin* has served as a member of our Board of Directors since May 2001. He served as the Chairman of our Management Board, which is our chief executive officer position, from 2001 to 3 April 2006. Currently, Mr. Plastinin serves on the boards of directors of a number of our subsidiaries, including Wimm-Bill-Dann (former Lianozovo Dairy Plant), Tsaritsino Dairy Plant, Ramenskiy Plant, Nizhny

Novgorod Dairy Plant, Siberian Dairy Plant, Vladivostok Dairy Plant, Timashevsk Dairy Plant, Ufa Dairy Plant, Bishkek Dairy Plant, Novokuibyshevsk Milk, Karasuk Dairy Plant, Gulkevichy Dairy Plant and Kiev Dairy Plant. He is also a member of the board of directors of PIK CENTER, a real estate company. In 1993, he served as General Director of UT Center LLC; from 1994 to 1995, he was General Director of NPP of Juices and Drinks JSC; from 1996 to 1998, he was Deputy Director of PK Lianfruct JSC; from 1996 to 1998 he served as Deputy Director of Production of Foods CJSC; and from 1998 to 1999, he was Deputy Director of the Wimm-Bill-Dann (former Lianozovo Dairy Plant). Since 1996, Mr. Plastinin has acted as Executive Director of PAG Rodnik CJSC. In 1998, Mr. Plastinin served as Deputy General Director of Production and Trade Group WBD CJSC. All of these companies either currently are or formerly were a part of our group of companies. Mr. Plastinin owns 6.56 per cent. of our outstanding common stock in the form of shares and 1.45 per cent. in the form of GDSs.

*Guy de Selliers* has served as a member of our Board of Directors since December 2001. He received a degree in engineering in 1975 and in economics in 1977 at the University of Lorraine. Currently, Mr. de Selliers serves as a member of the board of directors and a Chairman of the Audit Committee at Norilsk Nickel OJSC and a member of the boards of directors of Mebelnaya Fabrika Shatura OJSC and Allied Resources Inc. He is also a director and member of the Audit Committee of Solvay S.A., a global group of pharmaceutical and chemical companies, and Chairman of the boards of directors of HB Advisers (UK), a corporate finance consulting agency, and Partners in Hope, a charity organisation. During 2004 and 2005, Mr. de Selliers was a member of the international supervisory board at Fortis Group, an international financial services provider and, from 2001 to 2003, he acted as Chairman of Leader Capital, a project equity fund. During 1998 to 2000, he acted as Chairman, Head of Europe, of Fleming Investment Bank. Mr. de Selliers served as chief executive officer of MC BBL investment bank from 1997 to 1998. He was also a Deputy Vice President of EBRD from 1991 to 1997.

*Mikhail V. Dubinin* has served as a member of our Board of Directors since May 2001. He served as Deputy General Director of ISSA, one of the first companies of our group, from 1992 to 1993. From 1993 to 1994, he was the General Director of UT Center LLC; from 1994 to 1995, he was Executive Director of NPP of Juices and Drinks JSC; from 1995 to 1996, he was President of Trade Company WBD CJSC; from 1996 to 1997, he was consultant at Trade Company WBD CJSC; from 1997 to 1998, he served as Deputy Director (Economic Affairs) of the Wimm-Bill-Dann (former Lianozovo Dairy Plant); from 1998 to 2002, he was Deputy General Director of Production and Trade Group WBD. All of these companies either currently are or formerly were a part of our group of companies. Currently, Mr. Dubinin serves on the boards of directors of several companies unaffiliated with us, including OOO Istrinskije ruch'y, OOO Nadejny Fundament, OOO Strading, OOO Cliff-nedvijimost, OOO Petri-trade and non commercial partnership Rezydentzia Benilux. Mr. Dubinin owns 4.36 per cent. of our outstanding common stock in the form of shares and 0.81 per cent. in the form of GDSs.

*Michael A. O'Neil* has served as a member of our Board of Directors since December 2001. He received a degree in Industrial Engineering from the College of Commerce Rathmines in 1967. Currently, Mr. O'Neil serves on the management board of Coca-Cola Icecek in Turkey and is a member of the board of directors of Efes Breweries International. From 1989 to 1991, Mr. O'Neill was Deputy Region Manager of the Coca-Cola Company. From 1991 to 1997, he was the Region Manager of Eurasia of the Coca-Cola Company. From 1997 to 2000, Mr. O'Neill was the President of Nordic and Northern Eurasia Division of the Coca-Cola Company.

*Alexander S. Orlov* has served as a member of our Board of Directors since May 2001. He was director of the milk department of the Moscow Baby Food Plant from 1992 to 1994; from 1994 to 1997, Mr. Orlov served as General Director of the Moscow Baby Food Plant; from 1997 to 1998, he was General Director of the Wimm-Bill-Dann (former Lianozovo Dairy Plant). From May 1998 through December 2002, Mr. Orlov has served as General Director of Production and Trade Group WBD. In addition, during 2001 to 2003, Mr. Orlov was a consultant to the Wimm-Bill-Dann (former Lianozovo Dairy Plant) and Deputy Chairman (but not a member) of our Management Board. Mr. Orlov graduated from the Moscow Technology Institute of Meat and Milk Industry in 1975. Currently, Mr. Orlov serves on the boards of directors of our subsidiaries Moscow Baby Food Plant, Kiev Dairy Plant and Buryan Dairy Plant, and on the

board of directors of non-commercial partnership Rezidentzia Benilux. Mr. Orlov owns 2.64 per cent. of our outstanding common stock in the form of shares and 0.52 per cent. in the form of GDSs.

*Vladimir N. Sherbak* has served as a member of our Board of Directors since May 2001. He graduated from Krasnodar Polytechnic Institute in 1966 and from the Academy of Social Science of the Central Committee of the Communist Party in 1982. Currently, Mr. Sherbak serves as the Chairman of the board of directors of Joint-Stock Commercial Bank Tusar. From 1996 to 1999, Mr. Sherbak was Deputy Minister of Agriculture of the Russian Federation; from 1999 to 2000, he was Deputy Prime Minister of the Russian Federation for Agriculture.

*Earnest Linwood Tipton* has served as a member of our Board of Directors since May 2002. He has served on the International Dairy Food Association (IDFA) and its organisations for over 35 years in various posts, culminating with his appointment to President and CEO in 1983. He is a respected resource on agricultural trade policy for Capitol Hill and federal agencies, and he has served as an advisor under both Republican and Democratic administrations, including his presidential appointment to the National Commission on Agricultural Trade and Export Policy in 1984. Mr. Tipton is a past president and chairman of the board of the National Economists Club and the National Economic Education Foundation. Prior to joining IDFA, he worked as an economist for a milk producers' cooperative and as a dairy economic consultant. Mr. Tipton also served as an officer in the U.S. Army Finance Corp. and holds Bachelor's and Master's degrees from the University of Missouri.

*Victor A. Tutelyan* has served as a member of our Board of Directors since December 2001. He graduated from the Moscow Medical Institute in 1965. He is an academician of the Russian Academy of Medical Science and has been the chief secretary of its Presidium since 2000. Currently, Mr. Tutelyan is the head of the Institute of Nutrition of the Russian Academy of Medical Science. From 1980 to 2000, Mr. Tutelyan was the Deputy Director of the Institute of Nutrition of the Russian Academy of Medical Science.

*Evgeny G. Yasin* has served as a member of our Board of Directors since December 2001. He graduated from the Hydrotechnical Institute in 1957 with a degree in engineering and in 1963 from Moscow State University with a degree in economics. He has been a professor in the High School of Economy of the State University since July 1998. Currently, Mr. Yasin serves as a director of Severstal Auto, Open Investments, Echo of Moscow, as well as the president of the non-state fund Expert Institute and as a scientific adviser at the State University—Higher School of Economics. From 2000 to 2002, he served as a director of VimpelCom OJSC. From 1991 to 1994, Mr. Yasin was the Director of Economic Policy for the Russian Society of Manufactures and Entrepreneurs. In 1994, he was the head of the Analytical Center of the Administration of the Russian President. From 1994 to 1998, Mr. Yasin was the Minister of the Economy of Russia.

*Gavril A. Yushvaev* has served as a member of our Board of Directors since June 2005. He also serves as the president and a member of the board of directors of ZAO "RusAgroProject", and a member of the Board of Directors of ZAO "Agricultural Complex Gorki-2" and ZAO Plemhoz "Naro-osanovsky". Mr. Yushvaev, who is our largest shareholder, owns 17.13 per cent. of our outstanding common stock in the form of shares and 2.32 per cent. in the form of GDSs.

*Tony D. Maher* has served as the Chairman of our Management Board, which is our chief executive officer position, since April 2006. Mr. Maher is a 30-year veteran of the Coca-Cola system and, prior to his appointment as Chairman of our Management Board, he served as regional managing director of Coca-Cola Hellenic Bottling and Chairman of the Board of Directors of Multon.

*Dmitry A. Anisimov* has served as our Chief Financial Officer since April 2005 and also serves as a member of our Management Board. Mr. Anisimov also serves as a member of the boards of directors of Bishkek Dairy Plant, Kharkov Dairy Plant and Tuymazinskiy Dairy Plant, as well as the Financial Director of the Dairy Business Unit, a position he has held since May 2003. Prior to joining us, he served as Regional Corporate Finance Manager for Motorola's operations in Russia and the CIS from March 1999 to May 2003. Prior to that, he worked for Cadbury Confectionary and British Petroleum PLC. Mr. Anisimov has a degree in economics from the Moscow State Institute of International Relations.

*Vera V. Eliseeva* has served as our Head of Human Resources since October 2004 and also serves as a member of our Management Board. Prior to joining us, she worked for PATHWAYS HR training & consultancy as a senior partner from May 2003 to October 2004. She served as the Director of Human Resources for Troika Dialog from November 1999 to April 2003 and, from September 1997 to November 1999, she worked as a compensation and benefits manager at Nestle Food LLC. Ms. Eliseeva graduated from Moscow State Institute of International Relations (MGIMO) and received a Master's Degree in business economics from California State University, Hayward.

*Marina G. Kagan* has served as the Head of our External Communications and Investor Relations Department and a member of our Management Board since 2004. She graduated from Westminster University in London, England. From 1991 to 1998, Ms. Kagan worked for BBC radio and TV, serving as a Moscow correspondent for the BBC World Service from 1995 to 1998. She joined Gavin Anderson & Co, an international investor and public relations consultancy, in 1998, where she served on the Board of Directors until 2001. From 2001 to 2004, Ms. Kagan worked at Shared Value, a London-based international financial public relations and investor relations firm, where she was a partner.

*Gennady K. Krainov* has served as Director of our Information, Analysis and Control Department since December 2003 and as a member of our Management Board since June 2005. He also serves as a member of the Management Board of Gulkevichy Dairy Plant, as well as on our Anti-crisis and Investment Committees and as the Chairman of our Advisory Committee for Classified Commercial Information. From 1975 until the end of 2003, Mr. Krainov held managerial positions within national security bodies and the tax police, and also worked for the Russian External Trade Ministry and Chamber of Commerce and Industry. Mr. Krainov graduated from the Moscow Geological Survey Institute and from the Higher KGB School, where he received a legal degree.

*Oleg E. Kuzmin* has served as the Head of our Dairy Business Unit since August 2004 and also serves on our Management Board and as a member of the boards of directors of Kharkov Dairy Plant, Kiev Dairy Plant, Wimm-Bill-Dann (former Lianozovo Dairy Plant), Tuymazinskiy Dairy Plant, Tsaritsino Dairy Plant, Siberian Dairy Plant, Bishkek Dairy Plant and Tashkent Dairy Plant. Mr. Kuzmin has worked for us since 1995. From September 2003 to August 2004, he served as the Director for Operating Management of our Dairy Business Unit. Prior to that, he served in various managerial positions, including as head of our cheese project, Director of the Nizhny Novgorod Dairy Plant, Strategy Director at the Wimm-Bill-Dann (former Lianozovo Dairy Plant) and Marketing Director at Trade Company Wimm Bill-Dann. Mr. Kuzmin graduated from Moscow State Technical University named after N.E. Bauman and from Moscow State University. He also received an MBA from the Academy of National Economy of the Government of Russian Federation.

*Silviu Popovici* has served as the Head of our Beverages Business Unit since September 2006. Mr. Popovici has extensive experience in sales, marketing, operations and general management with global companies Bristol-Myers Squibb and Coca-Cola in Romania, Russia and Ukraine. During the last two and a half years, before joining our company, he worked as Country Manager for Coca-Cola HBC Ukraine, the fastest growing Coca-Cola market in the world. Mr. Popovici has a degree in physics from the University of Bucharest. He is currently completing an MBA at the London Business School in the UK.

*Grant Winterton* has extensive experience in marketing and sales with multinational companies Wella Haircare, Campbell Soup Company (Arnotts Snacking) and Coca-Cola in Australia, Russia, Ukraine, Belarus and China. He also has dairy industry experience with three years in both the milk and soft dairy divisions of National Dairies, Australia's largest dairy producer. Over the last 14 years Mr. Winterton has worked in a variety of senior marketing, sales and managerial positions in these fast moving consumer goods companies. Mr. Winterton holds a Bachelor of Commerce degree from the University of New South Wales, Australia, where he graduated with a double major in Marketing and Finance.

### Compensation of Directors and Senior Management

In 2005, the aggregate amount of compensation paid to the directors and members of the Management Board of Wimm-Bill-Dann Foods OJSC as a group for services in all capacities was \$2.9 million. We do not have a stock option plan and no funds were set aside for pension, retirement and other similar benefits for

the same directors and executive officers as of 31 December 2005. In 2006 we developed our SAR incentive programme for top management, at the moment it is in the process of finalisation. Besides, labour contracts of our certain senior managers already contain such provisions.

We compensate each board member \$50,000 annually, plus transportation and lodging expenses incurred in connection with board meeting attendance, and up to \$2,000 per year for other expenses incurred in connection with board-related activities. The Chairman of the Board is compensated \$300,000 annually plus transportation and lodging expenses incurred in connection with board meeting attendance, and up to \$2,000 per year for other expenses incurred in connection with board-related activities. We also compensate each member of the Personnel and Compensation Committee and each member of the Investment and Strategic Planning Committee \$3,000 and each member of the Audit Committee \$5,000 for participation in each planned direct Committee meeting. The annual shareholders' meeting held on 5 December 2006 approved revisions to the remuneration paid to board members in connection with their participation in Board of Director activities and meetings. The shareholders' meeting approved an increase of \$20,000, net of Russian taxes.

### Board Practices

#### Board of Directors

Members of our Board of Directors are elected by a majority vote of shareholders at our annual general meeting using a cumulative voting system. Each director is elected for a term that lasts until the next annual general meeting and may be re-elected an unlimited number of times. Our Board of Directors currently consists of 11 members, six of whom are independent directors. The Board of Directors has the authority to make overall management decisions for the Company, except those matters reserved to the shareholders. The members of our Board of Directors serve pursuant to a contract. The contracts do not provide for benefits to the board members upon termination of their employment. We indemnify each member of our Board of Directors pursuant to agreements, under which we indemnify them against, among others, expenses and costs incurred by them in connection with any claims, suits or proceedings arising out of or as a result of their service as a director, subject to certain limitations. The agreements also limit the liability of the directors to compensate us for any losses caused by them, as well as our ability to take any action against them, subject to certain exclusions.

The business address for all of our officers and directors is 16 Yauzsky Boulevard, Moscow 109028, Russian Federation.

#### Management Board

The size of our Management Board, which consists of our executive officers, is determined by the Board of Directors and currently consists of six members: Tony D. Maher, Dmitry A. Anisimov, Marina G. Kagan, Vera V. Eliseeva, Oleg E. Kuzmin and Gennady K. Krainov. Members of the Management Board are nominated by the Chairman of the Management Board and confirmed by our Board of Directors for a term of three years. The Management Board is the collective executive body of the Company and, under the direction of the Chairman of the Management Board, is responsible for our day-to-day management. We indemnify each member of our Management Board pursuant to agreements, under which we indemnify them against, among others, expenses and costs incurred by them in connection with any claims, suits or proceedings arising out of or as a result of their service as a Management Board member, subject to certain limitations. The agreements also limit the liability of the Management Board members to compensate us for any losses caused by them, as well as our ability to take any action against them, subject to certain exclusions.

#### Chairman of the Management Board

In accordance with our current charter, the Board of Directors appoints the Chairman of our Management Board, our chief executive officer, for a term of three years, which term we intend to extend to five years by amending our charter. We concluded an employment contract with the current Chairman of our Management Board for a term of five years. The rights, obligations and the times and amounts of payment

for the Chairman's services are determined pursuant to our charter and by contract. The Chairman of the Management Board is responsible for day-to-day management of our activities.

### Board of Directors Committees

#### Audit Committee

The Audit Committee of our Board of Directors was established on 24 April 2003 by a decision of our Board of Directors and functions pursuant to bylaws approved by the Board. It is currently comprised of three independent directors, G. de Selliers, E. Linwood Tipton and V. Sherbak. Our Board of Directors has determined that G. de Selliers is an "audit committee financial expert" as defined in Item 16A of Form 20-F. The goals and objectives of the Audit Committee, as set forth in the bylaws, are to assist the Board of Directors in carrying out its oversight responsibilities in the areas of:

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

According to its bylaws, the Audit Committee shall meet, separately from the non-independent directors, at least once during each fiscal quarter and more frequently as the Committee deems desirable. To improve the effectiveness of the Audit Committee, a major auditing firm (other than our independent auditor) has been hired to advise the Audit Committee.

#### Investment and Strategic Planning Committee

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

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

#### Personnel and Compensation Committee

The Personnel and Compensation Committee of our Board of Directors was formed on 24 April 2003 by a decision of our Board of Directors and functions pursuant to bylaws approved by the Board. It is composed of E. Yasin, an independent director who serves as Committee Chairman, G. Yushvaev and A. Orlov. According to the bylaws, the Personnel and Compensation Committee is tasked with assisting in the selection of Board of Directors candidates. Its members also assist the Management Board in formulating and implementing:

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

## Management

---

- a corporate ethics and communications policy.

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

### Company Committees

#### Disclosure Committee

Our Disclosure Committee was formed on 24 March 2003 by order of the Chairman of our Management Board. It is currently composed of our Chief Financial Officer, Head of Public Affairs, Head of the Legal Office, Head of the Treasury, Head of Internal Audit and Controls, Head of the Dairy Unit, Head of the Beverages Unit, Financial Director of the Beverages Unit, Head of the Baby Food Unit, Financial Director of the Baby Food Unit and the Head of the Reporting, Budgeting and Analysis Department. The Committee's activities are coordinated by a senior investor relations manager. The Disclosure Committee functions pursuant to bylaws and meets as determined by the Committee. It is directly supervised by and reports to the Chairman of the Management Board and Chief Financial Officer.

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

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

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

#### Audit Commission (for financial reporting under Russian law)

The Audit Commission verifies the accuracy of our financial reporting under Russian law and generally supervises our financial activity. The members of our Audit Commission are nominated and elected by our shareholders for a term of one year. A Director may not simultaneously be a member of the Audit Commission. Our Audit Commission currently has six members: E.V. Bogutskaya, E.B. Kuznetsova, N.N. Kolesnikova, M.A. Naumova, N.V. Romanova and Yu.A. Chudina. Our Audit Commission operates in accordance with terms set forth in specific guidelines. The terms of all of our Audit Commission members expire on the date of our next annual shareholders' meeting.

### Corporate Governance

We are required under the New York Stock Exchange listing rules to disclose any significant differences between the corporate governance practices that we follow under Russian law and applicable listing standards and those followed by U.S. domestic companies under New York Stock Exchange listing standards. This disclosure is posted on our website <http://www.wbd.com>.

### Employees

In 2005, we had an average of 18,956 employees within Russia and the other countries of the CIS, including 9,765 production employees, 5,713 marketing and distribution employees and 3,478 general and administrative employees. We do not employ a significant number of part-time employees. To date, we have experienced a moderate level of departures, voluntary or otherwise. We have not experienced any work

## Management

---

stoppages, and we consider our relations with employees to be strong. Some of our employees are unionised and are employed pursuant to collective labour agreements.

Average for the years ended 31 December	Production	Marketing and Distribution	General and Administrative	Percent Increase (Decrease) over Prior Year
2005 <sup>(1)</sup> .....	9,765	5,713	3,478	7%
2004 .....	8,561	6,008	3,140	(3)%
2003 .....	9,347	5,522	3,463	13%

Note:

- (1) Excluding employees of our “Agro” business division and of businesses we acquired in 2005, we had an average of 8,401 production employees, 5,554 marketing and distribution employees and 3,102 general and administration employees during 2005. We exclude employees of our “Agro” business division when calculating sales per employee, as revenue generated by “Agro” business employees is reported as other operating expenses and income.

Our personnel enjoy a relatively high level of social benefits. We provide subsidies for meals, medical care and summer vacations for employees and their children. Our employees have opportunities to upgrade their qualifications by participating in training sessions and taking courses. Starting in 1998, leading managers of our subsidiaries have been involved in programs to upgrade their professional skills through a program of the Russian government. We seek to maintain effective management teams at our regional subsidiaries by recruiting qualified new employees, transferring existing employees from our Moscow subsidiaries, as well as through customised retraining programs and on-site training in our Moscow subsidiaries. Programs for training local personnel have been or are being developed and implemented at each of our regional plants. In addition, in 2005, we created a corporate university to educate and train our personnel, create an internal reserve of management talent and provide an opportunity for employees to share their knowledge and experience with personnel located at our regional sites. We also offer training programs to management and sales personnel and thus far have educated approximately 500 employees at our leading training centres.

# Principal Shareholders

## Major Shareholders

The following table sets forth information regarding the beneficial ownership of our common stock as of 14 December 2006:

	Number of Shares Owned	Percentage of Shares	Outstanding Number of ADSs/GDSs Owned	Percentage of Shares Outstanding	Total Number of Shares Owned (Shares +ADSs/GDSs)	Total Percentage of Shares Outstanding (Shares +ADSs/GDSs)
Gavril A. Yushyaev <sup>(1)(2)</sup> .....	7,538,624	17.13%	1,020,894	2.32%	8,559,518	19.45%
Sergei A. Plastinin <sup>(1)(2)</sup> .....	3,328,496	7.56%	636,143	1.45%	3,524,639	9.01% <sup>(5)</sup>
David Iakobachvili <sup>(1)(2)</sup> .....	3,665,031	8.33%	786,039	1.79%	4,451,070	10.12%
Mikhail V. Dubinin <sup>(1)(2)</sup> .....	1,917,645	4.36%	357,233	0.81%	2,274,878	5.17%
Alexander S. Orlov <sup>(1)(2)</sup> .....	1,163,439	2.64%	229,688	0.52%	1,393,127	3.17%
Mikhail I. Vishnyakov <sup>(2)</sup> .....	304,512	0.69%	135,488	0.31%	440,000	1.00%
Viktor E. Evdokimov <sup>(2)</sup> .....	0	0%	22,178	0.05%	22,178	0.05%
I.M. Arteks Holdings Limited .....	183,639	0.42%	–	–	183,639	0.42%
Other holders of ordinary shares ..	8,303,614	18.87%	–	–	8,743,614	19.87%
Holders of American Shares <sup>(4)</sup> .....	–	–	14,407,337	32.74%	14,407,337	32.74%
<b>Total</b> .....	<b>26,405,000</b>	<b>60.01%</b>	<b>17,595,000</b>	<b>39.99%</b>	<b>44,000,000</b>	<b>100.00%</b>

### Notes:

- (1) Member of our Board of Directors.
- (2) Party to the Amended and Restated Partnership and Cooperation Agreement.
- (3) According to a press release issued by I.M. Arteks Holdings Limited, or Arteks, dated 7 June 2004, Arteks transferred 5.29 per cent. of our shares to Parex Bank JSC as security under a credit agreement, which amount was reduced to 4.92 per cent. Arteks is a party to the Amended and Restated Partnership and Cooperation Agreement. On 22 March 2005 Arteks disposed of 0.48 per cent. of our shares. Arteks owned 4.81 per cent. of our shares which were held by Parex Bank JSC as security under a credit agreement. In November 2006 Arteks redeemed all its shares from Parex.
- (4) According to its Form 13-D filed at the U.S. Securities and Exchange Commission on 13 November 2006 Groupe Danone owns 12.9 per cent. of our outstanding shares in the form of ADSs.
- (5) This figure contains 1 per cent. of shares owned by Lendero Ltd, a company controlled by Sergei A. Plastinin.

As of 14 December 2006, we had 44,000,000 shares of common stock outstanding. The total number of ADSs outstanding was 14,407,337 representing underlying ownership of 14,407,337 shares, or 32.7439 per cent. of our outstanding shares. The total number of GDSs outstanding was 3,187,663 representing underlying ownership of 3,187,663 shares, or 7.2447 per cent. of our outstanding shares. 5,213,193 ADSs were held in the United States by 22 holders, according to the data provided by Capital Bridge. The shares underlying the ADSs and GDSs are deposited with Deutsche Bank Trust Company Americas and the local custodian is OOO Deutsche Bank. All shares of common stock have the same voting rights.

Based on our share register, we believe we are not directly or indirectly owned or controlled by another corporation or government, and that there are no arrangements the operation of which may result in a change of control. From the date of completion of our initial public offering, 14 February 2002, there have not been any significant changes in the percentage ownership held by any major shareholders except as described below.

In March 2003, our former shareholder, Aleksandrs Timohins, sold 6.95 per cent. of our shares to United Burlington Investments Limited, which entity acceded to the Amended and Restated Partnership and Cooperation Agreement. In February 2004, United Burlington Investments Limited sold 6.30 per cent. of our shares to I.M. Arteks Holdings Limited, or Arteks, which entity acceded to the Amended and Restated Partnership and Cooperation Agreement. According to a press release issued by Arteks dated 7 June 2004, Arteks transferred 5.29 per cent. of our shares to Parex Bank JSC as security under a credit agreement, which amount was thereafter reduced to 4.92 per cent. The press release indicated that Arteks intends to

## Principal Shareholders

---

continue controlling its stake and to repay the credit. It also stated that, in the event of Arteks' default under the credit agreement, members of the controlling group of shareholders will have a right of first refusal to purchase the shares proportionally. On 22 March 2005, Arteks reportedly disposed of 0.48 per cent. of our shares. Currently Arteks is believed to own 4.81 per cent. of our shares which are still held by Parex Bank JSC as security under a credit agreement.

In May 2003, certain shareholders in our controlling group of shareholders, some of whom are members of our Board of Directors, sold shares held by them amounting to approximately 4.0 per cent. of our total outstanding shares in the form of GDSs. In connection with this sale, we entered into a deposit agreement for GDRs with Deutsche Bank Trust Company Americas. In February and March 2004, certain shareholders in our controlling group of shareholders, some of whom are members of our Board of Directors, sold 3,546,153 shares held by them amounting to 8.06 per cent. of our outstanding shares, of which 1,346,153 shares, or 3.06 per cent. of our outstanding shares, were acquired by Mr. Iakobachvili, the Chairman of our Board of Directors and a member of the controlling group of shareholders. In March 2005, certain shareholders in our controlling group of shareholders, some of whom are members of our Board of Directors, sold shares held by them amounting to approximately 3.0 per cent. of our total outstanding shares. In February 2006, Mr. Iakobachvili and Gavril Yushvaev, a member of our Board of Directors and a member of the controlling group of shareholders, purchased all shares owned by Evgeny Yaroslavsky, thereby increasing their respective ownership stakes to 10.12 per cent. and 19.45 per cent., respectively. Following the disposal of his ownership stake, Mr. Yaroslavsky ceased to be a party to the Amended and Restated Partnership and Cooperation Agreement. In November 2006, our controlling group of shareholders sold 10.00 per cent. of shares, thereby decreasing its ownership to 48.38 per cent. As a result, the respective ownership of our shareholders decreased as follows: Sergei A. Plastinin to 9.01 per cent., Mikhail V. Dubinin to 5.17 per cent., Alexander S. Orlov to 3.17 per cent., Mikhail I. Vishnyakov to 1.00 per cent., Viktor E. Evdokimov to 0.05 per cent. and I.M. Arteks Holdings Limited 0.42 per cent.

During 2003, certain of our shareholders were engaged in preliminary discussions relating to the possible acquisition of all or a majority of our shares by Groupe Danone. At the request of these shareholders, we cooperated in such preliminary discussions. In November 2003, we were informed by the shareholders who were engaged in the discussions with Groupe Danone that such discussions had been amicably terminated.

---

## Certain Transactions with Related Parties

We have entered into transactions with related parties. All transactions with such related parties were concluded on an arm's length basis.

### **Wimm-Bill-Dann Trans**

During 2005, 2004 and 2003, we received transportation services from Wimm-Bill-Dann Trans ("WBD Trans"), a closed joint stock company, which is a WBD Foods' investee, amounting to approximately \$11,687, \$11,149 and \$8,616, respectively. As of 31 December 2005, 2004 and 2003, advances paid to WBD Trans in respect of transportation services amounted to \$176, \$247 and \$18, respectively.

### **Perekriostok**

During 2003, one of the members of our Board of Directors was also a member of the Board of Directors in Trade House "Perekriostok" ("TH"), which buys dairy and juice products from WBD Foods. Sales to TH in 2003 were \$9,066. The amount due from TH as of 31 December 2003 was \$156.

### **Milk Suppliers**

During 2005, 2004 and 2003, we purchased milk from certain milk supplying companies, which are controlled by members of the control group of our shareholders, amounting to \$4,493, \$2,614 and \$900, respectively. As of 31 December 2005 and 2004 accounts payable to these milk supplying companies in respect of milk received amounted to \$134 and \$109, respectively.

---

## Terms and Conditions of the Notes

The following is the text of the Terms and Conditions of the Notes which will be endorsed on each Note Certificate in definitive form (if issued):

The U.S.\$150,000,000 7.50 per cent. Loan Participation Notes due 2008 (the “Notes”, which expression includes any further notes issued pursuant to Condition 13 (*Further Issues*) and forming a single series therewith) of UBS (Luxembourg) S.A. (the “Bank”, which expression shall include any successor to the Bank from time to time) are constituted by, are subject to and have the benefit of, a trust deed (as amended or supplemented from time to time, the “Trust Deed”) dated 8 February 2007 between the Bank and BNY Corporate Trustee Services Limited as trustee (the “Trustee”, which expression includes all persons from time to time appointed trustee or trustees under the Trust Deed). The Bank has authorised the creation, issue and sale of the Notes for the sole purpose of financing the U.S.\$150,000,000 loan (the “Loan”) to Open Joint Stock Company “Wimm-Bill-Dann Foods” (the “Borrower”). The Bank and the Borrower have recorded the terms of the Loan in an agreement (as amended or supplemented from time to time, the “Loan Agreement”) dated 6 February 2007 between the Bank and the Borrower.

In each case where amounts of principal, interest and additional amounts, if any, due pursuant to Condition 7 (*Taxation*) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligation of the Bank to make any such payment shall constitute an obligation only to account to the Noteholders (as defined in Condition 2(a) (*Register*)) on each date upon which such amounts of principal, interest, additional amounts, if any, are due in respect of the Notes, for an amount equal to the sums of principal, interest and Additional Amounts (as defined in the Loan Agreement) and Tax Indemnity Amounts (as defined in the Loan Agreement), if any, actually received by, or for the account of, the Bank pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights (as defined below). Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other assets of the Bank.

### Security

The Bank (as lender) has:

- (A) charged to the Trustee (i) its rights to receive principal, interest and other amounts paid and payable to it under the Loan Agreement and (ii) its right to receive amounts paid and payable to it under any claim, award or judgment relating to the Loan Agreement (other than its right to amounts in respect of any rights, interests and benefits of the Bank under the second sentence of Clause 7.5, Clause 8.3.1, Clause 10, Clause 11, the second paragraph of Clause 16.4, Clause 20, Clause 21.3.1 (insofar as it relates to claims by the Manager, the Trustee or the Agents in connection with a claim by the Bank under the second paragraph of Clause 16.4 of the Loan Agreement) and (to the extent that the Issuer’s claim is in respect of one of the aforementioned clauses of the Loan Agreement) Clause 18.2 of the Loan Agreement (such rights referred to herein, the “Reserved Rights”));
- (B) charged to the Trustee sums held on deposit from time to time, in an account in London in the name of the Bank with the Principal Paying Agent (as defined below), account number 1067768400, together with the debt represented thereby (other than interest from time to time earned thereon and the Reserved Rights) (the “Account”) pursuant to the Trust Deed; and
- (C) assigned its administrative rights under the Loan Agreement (save for those rights charged or excluded in (A) and (B) above) to the Trustee (the “Loan Administration Transfer”),

together, the “Security Interests”.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising in connection with the Security Interests).

The Notes are the subject of an agency agreement dated 8 February 2007 (as amended or supplemented from time to time, the “**Agency Agreement**”) among the Bank, The Bank of New York (Luxembourg) S.A. as registrar (the “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Notes), The Bank of New York, at its specified office in London, as principal paying agent (the “**Principal Paying Agent**”, which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), The Bank of New York (Luxembourg) S.A., and The Bank of New York, at its specified office in London each as transfer agent (each a “**Transfer Agent**” and together the “**Transfer Agents**”, which expressions include any additional or successor transfer agent appointed from time to time in connection with the Notes) and each as paying agent (each a “**Paying Agent**” and together the “**Paying Agents**”, which expressions include any additional or successor paying agent appointed from time to time in connection with the Notes) and the Trustee. References herein to the “**Agents**” are to the Registrar, any Transfer Agent, the Principal Paying Agent and any Paying Agent and any reference to an “**Agent**” is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed, the Loan Agreement and the Agency Agreement and are subject to their detailed provisions. The Noteholders are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Loan Agreement and the Agency Agreement applicable to them. Copies of the Trust Deed, the Loan Agreement and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof One Canada Square, London E14 5AL and at the Specified Offices (as defined in the Agency Agreement) of the Registrar, the Principal Paying Agent, any Transfer Agent and any Paying Agent. The initial Specified Offices of the initial Agents are set out below.

Terms used but not otherwise defined herein shall have the meaning given to them in the Trust Deed.

### **1 Form, Denomination and Status**

- (a) *Form and denomination:* The Notes are in registered form in minimum denominations of U.S.\$100,000 each (subject to Condition 5 (*Redemption and Purchase*)) and integral multiples of U.S.\$1,000 in excess thereof, without coupons attached.
- (b) *Status:* The sole purpose of the issue of the Notes is to provide the funds for the Bank to finance the Loan. The Notes constitute the obligation of the Bank to apply an amount equal to the gross proceeds from the issue of the Notes for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest, Additional Amounts and Tax Indemnity Amounts, if any, actually received by, or for the account of, the Bank pursuant to the Loan Agreement (less any amounts in respect of the Reserved Rights), the right to receive which is, *inter alia*, being charged by way of security to the Trustee by virtue of the Security Interests as security for the Bank’s payment obligations under the Trust Deed and in respect of the Notes.

Payments in respect of the Notes equal to the sums actually received by, or for the account of, the Bank by way of principal, interest, Additional Amounts or Tax Indemnity Amounts, if any, pursuant to the Loan Agreement (less any amounts in respect of the Reserved Rights) will be made pro rata among all Noteholders (subject to Conditions 5(c) (*Redemption at the option of the Noteholders upon a Change of Control*) and Condition 7 (*Taxation*), on the corresponding payment dates (as provided in the Loan Agreement), or as soon thereafter as they are received by or for the account of the Bank of, and in the currency of, and subject to the conditions attaching to, the equivalent payment in accordance with the Loan Agreement. The Bank shall not be liable to make any payment in respect of the Notes other than as expressly provided herein. The Bank shall be under no obligation to exercise in favour of the Noteholders any rights of set-off or of banker’s lien or to combine accounts or counterclaim that may arise out of other transactions between the Bank and the Borrower.

Noteholders are deemed to have accepted that:

- (i) neither the Bank nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or liability, or obligation in respect of the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any

sum of principal, interest, Additional Amounts or Tax Indemnity Amounts, if any, due or to become due from the Borrower under the Loan Agreement;

- (ii) neither the Bank nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower;
- (iii) neither the Bank nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, any misrepresentation or breach of warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;
- (iv) neither the Bank nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Registrar, the Principal Paying Agent, any Transfer Agent or any Paying Agent of their respective obligations under the Agency Agreement;
- (v) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon the performance by the Borrower of its obligations under the Loan Agreement, its covenant to pay under the Loan Agreement and its credit and financial standing. The Borrower has represented and warranted to the Bank in the Loan Agreement that, subject to certain qualifications set out in Clause 11.2 (*Authorisations*) of the Loan Agreement, the Loan Agreement constitutes a legal, valid and binding obligation of the Borrower. The representations and warranties given by the Borrower in Clause 11 (*Representations and Warranties of the Borrower*) of the Loan Agreement are given by the Borrower to the Bank for the sole benefit of the Bank and neither the Trustee nor any Noteholder shall have any remedies or rights against the Borrower that the Bank may have with respect to such representations or warranties;
- (vi) the Bank (and, pursuant to the Loan Administration Transfer, the Trustee) will rely on periodic self-certification by the Borrower whether or not addressed to the Bank or the Trustee and certification by third parties as a means of monitoring whether the Borrower is complying with its obligations under the Loan Agreement, as to the identity of Significant Subsidiaries (as defined in the Loan Agreement) and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Security Interests and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Bank to the secured property whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee will have no responsibility for the value of such security; and
- (vii) the Bank will not be responsible for any withholding or deduction or for any payment on account of Taxes (as defined in the Loan Agreement) (not being a tax imposed on the Bank's net income) required to be made by the Bank on or in relation to any sum received by it under the Loan Agreement, which will or may affect payments made or to be made by the Borrower under the Loan Agreement, save to the extent that it has received Additional Amounts or Tax Indemnity Amounts under the Loan Agreement in respect of such withholding or deduction; the Bank shall, furthermore, not be obliged to take any actions or measures as regards such deductions or withholdings other than those set out in this context in Clause 8 (*Taxes*) and Clause 10.4 (*Mitigation*) of the Loan Agreement.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Bank's rights under or in respect of the Loan Agreement exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct recourse to the Borrower except through action by the Trustee under the Security Interests. Neither the Bank nor the Trustee pursuant to the Loan Administration Transfer shall be required to take proceedings to enforce payment under the Loan Agreement, unless it has

been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

As provided in the Trust Deed, the obligations of the Bank are solely to make payments of amounts in aggregate equal to each sum actually received by or for the account of the Bank from the Borrower in respect of principal, interest, Additional Amounts or Tax Indemnity Amounts, if any, as the case may be, pursuant to the Loan Agreement (less any amount in respect of the Reserved Rights), the right to which is being charged by way of security to the Trustee as aforesaid. Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower.

The obligations of the Bank to make payments as stated in the previous paragraph constitute direct and general obligations of the Bank which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Bank, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Payments made by the Borrower under the Loan Agreement to, or to the order of, the Trustee or (before such time that the Bank has been required by the Trustee, pursuant to the terms of the Trust Deed, to pay to or to the order of the Trustee) the Principal Paying Agent will satisfy *pro tanto* the obligations of the Bank in respect of the Notes.

## 2 Register, Title and Transfers

- (a) *Register*: The Registrar will maintain a register in Luxembourg (the “**Register**”) in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the “**Holder**” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly. A certificate (each, a “**Note Certificate**”) will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.
- (b) *Title*: The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder.
- (c) *Transfers*: Subject to Conditions 2(f) (*Closed periods*) and 2(g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed (including any certificates as to compliance with restrictions on transfer included therein), at the Specified Office of the Registrar or a Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor in accordance with Condition 2(d) (*Registration and delivery of Note Certificates*) below.
- (d) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with Condition 2(c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Note(s) transferred to the relevant Holder at the Registrar’s Specified Office or (as the case may be) the Specified Office of the Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, “business day” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its Specified Office. In the case of

the transfer of part only of the Notes, a new Note Certificate in respect of the balance of the Notes not transferred will be so delivered or (at the risk and, if mailed at the request of the transferor otherwise than by ordinary uninsured mail, at the expense of the transferor) sent by mail to the transferor.

- (e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Bank or the Registrar, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (f) *Closed periods*: Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.
- (g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Bank with the prior written approval of the Trustee, the Registrar and the Borrower. A copy of the current regulations will be mailed (free of charge) by the Registrar and/or any Transfer Agent to any Noteholder who requests in writing a copy of such regulations and will be available at the Specified Office of the Registrar in Luxembourg and any Transfer Agent.

### 3 Bank's Covenant

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Bank will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed and the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and any such amendment or modification shall be notified by the Trustee to the Noteholders in accordance with Condition 14 (*Notices*).

### 4 Interest

- (a) *Accrual of interest*: The Notes bear interest from, and including, 8 February 2007 (the “**Issue Date**”) at the rate of 7.50 per cent. per annum (the “**Interest Rate**”) payable in two instalments on 14 November 2007 and 14 May 2008 (each, other than the Issue Date, an “**Interest Payment Date**”), subject as provided in Condition 6 (*Payments*). Each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next (or first) Interest Payment Date is herein called an “**Interest Period**”.

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation of the relevant Note Certificate, payment of principal is improperly withheld or refused, in which case interest will continue to accrue (before or after any judgment) from the due date for redemption to, but excluding, the date on which payment in full of the principal is made under the Notes.

The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Interest Rate to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). When interest is required to be calculated in respect of a period other than an Interest Period, it shall be calculated on the basis of a 360 day year consisting of 12 months of 30 days each, and in the case of an incomplete month, the actual number of days elapsed.

- (b) *Default Interest under the Loan Agreement*: In the event that, and to the extent that, the Bank actually receives any amounts in respect of interest on unpaid sums from the Borrower, pursuant to Clause 16 (*Default Interest and Indemnity*) of the Loan Agreement, the Bank shall account to the Noteholders for an amount equal to the amounts in respect of interest on unpaid sums actually so

received. Any payments made by the Bank under this Condition 4(b) will be made on the next following business day (as defined in Condition 6(c) (*Payments on business days*)) after the day on which the Bank receives such amounts from the Borrower and, save as provided in this Condition 4(b), all subject to and in accordance with Condition 6 (*Payments*).

### 5 Redemption and Purchase

- (a) *Final redemption*: Unless previously prepaid pursuant to Clause 7 (*Prepayment*) of the Loan Agreement or repaid in accordance with Clause 10.3 (*Illegality*) of the Loan Agreement, the Borrower will be required to repay the Loan on its due date as provided in the Loan Agreement and, subject to such repayment, all the Notes will be redeemed at their principal amount on 14 May 2008, subject as provided in Condition 6 (*Payments*).
- (b) *Redemption by the Bank*: The Notes shall be redeemed by the Bank in whole, but not in part, at any time, on giving not less than 25 days' notice to the Noteholders, (which notice shall be irrevocable and shall specify a date for redemption, being the same date as that set out in the notice of prepayment referred to in Condition 5(b)(i) or (ii) below) in accordance with Condition 14 (*Notices*) at the principal amount thereof, together with interest accrued and unpaid to the date fixed for redemption and any additional amounts in respect thereof pursuant to Condition 7 (*Taxation*), if, immediately before giving such notice, the Bank satisfies the Trustee that:
- (i) the Bank has received a notice of prepayment from the Borrower pursuant to Clause 7.1 (*Prepayment for Tax Reasons*) or Clause 7.2 (*Prepayment for Reasons of Increased Costs*) of the Loan Agreement; or
  - (ii) the Bank has delivered a notice to the Borrower, the contents of which require the Borrower to repay the Loan, in accordance with the provisions of Clause 10.3 (*Illegality*) of the Loan Agreement.

The Bank shall deliver to the Trustee an Officer's Certificate of the Bank stating that the Bank is entitled to effect such redemption in accordance with this Condition 5(b). A copy of the Borrower's notice of prepayment or details of the circumstances contemplated by Clause 10.3 (*Illegality*) of the Loan Agreement and the date fixed for redemption shall be set out in the notice.

The Trustee shall be entitled to accept any notice or certificate delivered by the Bank in accordance with this Condition 5(b) as sufficient evidence of the satisfaction of the applicable circumstances in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice given by the Bank to the Trustee on behalf of the Noteholders as is referred to in this Condition 5(b), the Bank shall be bound to redeem the Notes in accordance with this Condition 5, subject as provided in Condition 6 (*Payments*).

- (c) *Redemption at the option of the Noteholders upon a Change of Control*:
- (i) Upon the occurrence of a Change of Control (as defined in the Loan Agreement), in accordance with Condition 14 (*Notices*) the Bank will make an offer to purchase all or any part subject to a minimum of U.S.\$100,000 in principal amount and integral multiples of U.S.\$1,000 in excess thereof of the Notes pursuant to the offer described below (the "**Change of Control Offer**") at a price per Note in cash (the "**Change of Control Payment**") equal to 101 per cent. of the principal amount thereof plus accrued and unpaid interest thereon to the date of repurchase, plus additional amounts, if any, to the date of repurchase. Pursuant to Clause 7.3 (*Prepayment in the Event of a Change of Control*) of the Loan Agreement, the Borrower is required to give notice to the Bank (and, following the Loan Administration Transfer, to the Trustee) promptly and in any event within 10 calendar days after the date of any Change of Control (the "**Borrower Change of Control Notice**") and thereafter to prepay the Loan to the extent of the aggregate principal amount of the Notes plus accrued and unpaid interest thereon to the date of prepayment, plus additional amounts, if any, thereon corresponding to the aggregate principal amount plus accrued and unpaid interest and additional amounts, if any, on the Notes

to be repurchased in accordance with this Condition 5(c). The Bank, upon receipt of the Borrower Change of Control Notice, shall mail a notice to each Holder postage prepaid, with a copy to the Agents and, for so long as the Notes are listed by the Luxembourg Stock Exchange, shall publish a notice in a daily newspaper of general circulation in Luxembourg (which is expected to be the *d'Wort*), and, prior to the Loan Administration Transfer, the Trustee, setting out the following information: (i) confirmation that a Change of Control Offer is being made pursuant to this Condition 5(c) and all Notes properly tendered pursuant to such Change of Control Offer will be accepted for payment; (ii) the purchase price and the purchase date, which will be a business day which is the next Business Day occurring on or after 60 calendar days from the date of delivery to the Bank of the Borrower Change of Control Notice, except as may be otherwise required by applicable law (the “**Change of Control Payment Date**”); (iii) that any Note not properly tendered or not tendered at all will remain outstanding and continue to accrue interest and additional amounts, if any; (iv) the circumstances and relevant facts giving rise to the Change of Control, including, to the extent available, (information with respect to pro forma historical income, cash flow and capitalisation for the most recent complete financial period that is subject to a review by auditors, each after giving effect to such Change of Control and events causing such Change of Control, and the date upon which Change of Control is deemed to have occurred; (v) that unless the Bank defaults in the payment of the Change of Control Payment, all Notes accepted for payment pursuant to the Change of Control Offer will cease to accrue interest and additional amounts, if any, on the Change of Control Payment Date; (vi) that Holders electing to have any Notes repurchased pursuant to a Change of Control Offer will be required to surrender the Notes, with the form entitled “Option of Holder to Elect Purchase” set out as an exhibit to the Agency Agreement completed, to the Paying Agent and at the address specified in the notice prior to the close of business on the fifth business day (when used in this Condition, as such term is defined in the Loan Agreement) preceding the Change of Control Payment Date; (vii) that Holders will be entitled to withdraw their tendered Notes and their election to require the Bank to repurchase such Notes provided that the Paying Agent receives prior to the close of business on the third business day preceding the Change of Control Payment Date, a facsimile transmission or letter setting out the name of the Holder, the principal amount of Notes tendered for repurchase, and a statement that such Holder is withdrawing his tendered Notes and his election to have such Notes repurchased; and (viii) that Holders whose Notes are being repurchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the principal amount of the Notes surrendered, which unpurchased portion must be in integral multiples of U.S.\$1,000.

- (ii) The Bank will comply with any securities laws and regulations thereunder and will comply with the applicable laws of any jurisdiction in which a Change of Control Offer is made, in each case, to the extent such laws or regulations are applicable in connection with the repurchase of the Notes pursuant to a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Loan Agreement or these Conditions, the Bank will comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations contained in the Loan Agreement or these Conditions by virtue thereof.
- (iii) On the second business day preceding the Change of Control Payment Date, the Bank will provide a notice (the “**Bank Change of Control Notice**”) to the Trustee and the Borrower in accordance with Condition 14 (*Notices*) setting out the Change of Control Payment (including the computation thereof) required to be made by the Bank for such Notes or portions thereof on the Change of Control Payment Date.
- (iv) On the last business day prior to the Change of Control Payment Date, the Borrower will, pursuant to Clause 7.3 (*Prepayment in the Event of a Change of Control*) of the Loan Agreement deposit in the Account with the Principal Paying Agent an amount equal to the aggregate Change of Control Payment in respect of all Notes or portions thereof properly tendered and not properly withdrawn as set out in the Bank Change of Control Notice. On the

Change of Control Payment Date, the Bank will, to the extent permitted by law, (i) accept for payment all Notes or portions thereof properly tendered and not properly withdrawn pursuant to the Change of Control Offer and (ii) deliver, or cause to be delivered, to the Registrar for cancellation on behalf of the Bank the Notes so accepted together with a certificate of the Management Board of the Bank stating that such Notes or portions thereof have been tendered to and purchased by the Bank. In accordance with the instructions of the Holder set out in the Option of Holder to Elect to Purchase, the Paying Agent will promptly either (x) pay to the Holder or (y) mail to each Holder of Notes postage prepaid, the Change of Control Payment for such Notes, and the Registrar will promptly authenticate and deliver to the Holder of the Notes a new Note Certificate or Certificates, equal in principal amount to any unpurchased portion of the Notes surrendered, if any; provided, however, that each new Note will be in integral multiples of U.S.\$1,000. The Bank will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

- (d) *No other redemption*: Except where the Loan is accelerated pursuant to Clause 15.2 (*Rights of Lender upon occurrence of an Event of Default*) of the Loan Agreement, the Bank shall not be entitled to redeem the Notes otherwise than as provided in Conditions 5(b) (*Redemption by the Bank*) and 5(c) (*Redemption at the option of the Noteholders upon a Change of Control*) above.
- (e) *Purchase*: The Bank or any of its subsidiaries or the Borrower or any of its subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.
- (f) *Cancellation*: All Notes so redeemed or purchased by the Bank shall be cancelled and all Notes purchased by the Borrower or any of its subsidiaries and surrendered to the Lender pursuant to Clause 7.8 (*Purchase of Instruments Issued to the Agreed Funding Source*) of the Loan Agreement, together with an authorisation addressed to the Registrar by the Borrower or such subsidiaries, shall be cancelled.

## 6 Payments

- (a) *Principal*: Payments of principal shall be made by U.S. dollar cheque drawn on, or upon application by, a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by, the payee, upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificate(s) at the Specified Office of the Registrar in Luxembourg and/or any Transfer Agent.
- (b) *Interest*: Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by, a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee, and (in the case of interest payable on redemption in whole) upon presentation for surrender of the relevant Note Certificate(s) at the Specified Office of the Registrar in Luxembourg and/or any Transfer Agent.
- (c) *Payments on business days*: Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date for payment, or, if the due date for payment is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of the Registrar and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, “business day” means any day (other than a Saturday or Sunday) on which banks generally are open for business in Luxembourg and London and, in the case of surrender (or, in the case of part payment only,

endorsement) of a Note Certificate, the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

- (d) *Partial payments:* If the Principal Paying Agent makes a partial payment in respect of any Note, the Bank shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (e) *Record date:* Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Specified Office of the Registrar on the fifteenth day before the due date for such payment (the “Record Date”) whether or not a business day. Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.
- (f) *Payment to the Account:* Save as the Trustee may otherwise direct at any time after the Charge created pursuant to the Trust Deed becomes enforceable, the Bank will pursuant to the provisions of Clause 7.1 (*Payments to the Principal Paying Agent*) of the Agency Agreement require the Borrower to make all payments of principal and interest to be made pursuant to the Loan Agreement less any amounts in respect of the Reserved Rights to the Account.
- (g) *Payment obligations limited:* The obligations of the Bank to make payments under Conditions 5 (*Redemption and Purchase*) and 6 (*Payments*) shall constitute an obligation only to account to the Noteholders on such date upon which a payment is due in respect of the Notes, for an amount equal to sums of principal, interest, Additional Amounts or Tax Indemnity Amounts, if any, actually received by or for the account of the Bank pursuant to the Loan Agreement less any amount in respect of the Reserved Rights.

## 7 Taxation

All payments of principal and interest by, or on behalf of, the Bank in respect of the Notes shall be made to, or for the account of, each Holder free and clear of, and without withholding or deduction for, or on account of, any Taxes imposed or levied by the Grand Duchy of Luxembourg (“Luxembourg”) or any governmental or political subdivision or territory or possession of any government or any authority thereof or agency therein or thereof having power to tax, unless such withholding or deduction is required by law or by the interpretation or administration thereof. In that event, the Bank shall, subject as provided below, pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been made or required to be made. No such additional amounts shall be payable in respect of any Note:

- (a) held by a Holder which is liable for such Taxes in respect of such Note by reason of its having some connection with Luxembourg other than the mere holding of such Note (including being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in, or being physically present in, Luxembourg); or
- (b) for any Taxes, that are imposed or withheld by reason of the failure of the Holder of the Note to comply with a request of, or on behalf of, the Bank addressed to the Holder to provide information concerning the nationality, residence or identity of such Holder or to make any declaration or similar claim or satisfy any information or reporting requirement, which is required or imposed by a statute, treaty, regulation, protocol, or administrative practice of Luxembourg as a precondition to exemption from all or part of such Taxes; or
- (c) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after a Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days; or

- (d) where such withholding or deduction is imposed or levied on a payment to or for the benefit of an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 (or any law implementing or complying with, or introduced in order to conform to, such directives, being in particular in Luxembourg the Luxembourg laws dated 21 June 2005) or the Luxembourg law of 23 December 2005 introducing a withholding tax on interest payments made to Luxembourg individual residents); or
- (e) presented for payment by or on behalf of a Holder who would be able to avoid such withholding or deduction by presenting the relevant Note Certificate to another Paying Agent in a Member State of the European Union.

Notwithstanding the foregoing provisions, the Bank shall only make payments of additional amounts to the Noteholders pursuant to this Condition 7 (*Taxation*) to the extent and at such time as it shall have actually received an equivalent amount for such purposes from the Borrower under the Loan Agreement, by way of Additional Amounts or Tax Indemnity Amounts or otherwise.

To the extent that the Bank receives a lesser sum, in respect of an additional amount from the Borrower for the account of the Noteholders, the Bank shall account to each Noteholder entitled to receive such additional amount pursuant to this Condition 7 (*Taxation*) for an additional amount equivalent to a pro rata portion of such additional amount (if any) as is actually received by, or for the account of, the Bank pursuant to the provisions of the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Bank.

In these Conditions, “**Relevant Date**” means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed or the Loan Agreement.

If the Bank becomes subject at any time to any taxing jurisdiction other than Luxembourg, references in these Conditions to Luxembourg shall be construed as references to Luxembourg and/or such other jurisdiction.

## 8 Prescription

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years, and claims for interest due other than on redemption shall become void unless made within five years, of the appropriate Relevant Date.

## 9 Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar or any Paying Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Bank, Registrar or Paying Agent may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

## 10 Trustee and Agents

Under the agreement between the Borrower and the Trustee and the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances. In addition, the Trustee is entitled

to enter into business transactions with the Bank, the Borrower and any entity relating to the Bank or the Borrower without accounting for any profit.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Bank, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 7 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 7 (*Taxation*) pursuant to the Trust Deed.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Bank and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders. Under separate agreements between the Borrower and the Agents, the Agents are entitled to be indemnified and relieved from certain responsibilities in certain circumstances.

The initial Agents and their initial Specified Offices are listed below. The Bank reserves the right (with the prior approval of the Trustee and the Borrower) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or principal paying agent or additional or successor paying agents and transfer agents; provided, however, that the Bank shall, if and so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange in its capacity as competent authority under the law on prospectuses for securities of 10 July 2005 and admitted to trading on the Luxembourg Stock Exchange Euro MTF market, maintain a transfer and paying agent in Luxembourg and shall at all times maintain a registrar outside the United Kingdom. Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

The Bank undertakes that, pursuant to European Council directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 (the “**European Union Directive**”), for so long as the Borrower agrees to do so, the Bank will ensure that it maintains a paying agent in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to the European Union Directive.

### **11 Meetings of Noteholders; Modification and Waiver; Substitution**

- (a) *Meetings of Noteholders:* The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of the Loan Agreement or any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution (as defined in the Trust Deed). Such a meeting may be convened on no less than 14 days’ notice by the Trustee, the Borrower or the Bank or by the Trustee at the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons holding or representing more than one quarter of the aggregate principal amount of the outstanding Notes (and proposals at such meetings may only be sanctioned by one or more persons holding or representing more than half or one quarter, respectively, of the aggregate principal amount of the outstanding Notes); provided, however, that certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to

change the currency of payments under the Notes, to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution, to alter the governing law of the Conditions, the Trust Deed or the Loan Agreement or to change any date fixed for payment of principal or interest under the Loan Agreement, to alter the method of calculating the amount of any payment under the Loan Agreement or to change the currency of payment or Events of Default under the Loan Agreement (each, a “Reserved Matter”) may only be sanctioned by all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

Affiliates of the Borrower who are also Noteholders shall not, by virtue of their votes alone, be allowed to pass certain Extraordinary Resolutions.

- (b) *Modification and waiver:* The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions, the Trust Deed or pursuant to the Loan Administration Transfer, the Loan Agreement (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders or which, in the opinion of the Trustee, is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any breach or proposed breach of the Notes or the Trust Deed by the Bank or, pursuant to the Loan Administration Transfer or the Loan Agreement by the Borrower, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such (other than a proposed breach or breach relating to a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders in accordance with Condition 14 (*Notices*) as soon as practicable thereafter.

- (c) *Substitution:* The Trust Deed contains provisions under which the Bank may, without the consent of the Noteholders, transfer the obligations of the Bank as principal debtor under the Trust Deed and the Notes to a third party provided that certain conditions specified in the Trust Deed are fulfilled. Notice of such substitution shall be given to the Noteholders in accordance with Condition 14 (*Notices*).

## 12 Enforcement

At any time after an Event of Default (as defined in the Loan Agreement) or Relevant Event (as defined below) shall have occurred and be continuing, the Trustee may, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

- (a) it has been so requested in writing by the Holders of at least one-quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution or a Written Resolution; and
- (b) it has been indemnified and/or provided with security to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

No Noteholder may proceed directly against the Bank unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

The Trust Deed also provides that, in the case of an Event of Default, or a Relevant Event, the Trustee may, and shall if requested to do so by Noteholders holding at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution or a Written Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, (1) require the Bank to declare all amounts payable under the Loan Agreement by the Borrower to be due and payable (in the case of an Event of Default), or (2) enforce the security created in the Trust Deed in favour of the Noteholders (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof together with interest accrued to the date fixed for redemption together with any additional amounts due in respect thereof pursuant to Condition 7 (*Taxation*) and thereupon shall cease to be outstanding.

For the purposes of these Conditions, “**Relevant Event**” means the earlier of (i) the failure by the Bank to make any payment of principal or interest on the Notes when due; (ii) suspension of payment (*sursis de paiement*) or liquidation (*liquidation*) pursuant to the provisions of Part IV of the Luxembourg law of 5 April 1993, as amended, on the Financial Sector; (iii) the order of the Commission de Surveillance du Secteur Financier to suspend the activities of the Bank pursuant to Article 59 of the Luxembourg law of 5 April 1993, as amended, on the Financial Sector; (iv) the taking of any action in furtherance of dissolution of the Bank; or (v) the taking of any collective measure imposed by any subsequent amendment of the laws referred to above.

### 13 Further Issues

The Bank may from time to time, with the consent of the Borrower but without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Bank may from time to time, with the consent of the Borrower and the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

### 14 Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. Notices shall be valid if published in a daily newspaper of general circulation in Luxembourg (which is expected to be the *d’Wort*) or on the website of the Luxembourg Stock Exchange at [www.bourse.lu](http://www.bourse.lu) or as otherwise required by any exchange on which the Notes are listed.

### 15 Governing Law and Jurisdiction

- (a) *Governing law*: The Trust Deed, the Agency Agreement, the Notes, the Loan Agreement, and all other agreements entered into in connection therewith are governed by, and shall be construed in accordance with, English law. The provisions of Articles 86 to 94-8 (inclusive) of the Luxembourg law of 10 August 1915 on commercial companies, as amended, are expressly excluded.
- (b) *Jurisdiction*: The Bank has in the Trust Deed (i) submitted irrevocably to the non-exclusive jurisdiction of the courts of England for the purposes of hearing any determination and suit, action or proceedings or settling any disputes arising out of or in connection with the Trust Deed, the Agency Agreement, the Notes or the Loan Agreement; (ii) waived any objection which it might have to such courts being nominated as the forum to hear and determine any such suit, action or proceedings or to settle any such disputes and agreed not to claim that any such court is not a convenient or appropriate forum; (iii) designated a person in England to accept service of any process on its behalf; and (iv) consented to the enforcement of any judgment.

---

## Summary of Provisions of the Notes while in Global Form

*The Notes will be represented by Global Note Certificates. The Global Note Certificates contain provisions which apply to the Notes in respect of which the Global Note Certificates are issued, some of which modify the effect of the Terms and Conditions of the Notes. Terms defined in the Terms and Conditions of the Notes have the same meanings as in the paragraphs below. The following is a summary of those provisions:*

### **Exchanges**

The Notes, which will be sold to non-U.S. persons outside the United States, will initially be represented by an unrestricted global note certificate in registered form (a “Global Note Certificate”). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to the Notes, beneficial interests in a Global Note Certificate may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 (*Register, Title and Transfers*) of the Terms and Conditions of the Notes and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Global Note Certificate will bear a legend regarding such restrictions on transfer.

The Global Note Certificate will be registered in the name of The Bank of New York (Nominees) Limited as nominee for, and will be deposited with The Bank of New York as a common depository for, Euroclear and Clearstream, Luxembourg.

Interests in the Global Note Certificate will be exchangeable (free of charge), in whole but not in part, for Note Certificates in definitive form without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For the purposes hereof, “Exchange Event “ means that (i) a Relevant Event (as defined in the Trust Deed) has occurred and is continuing, (ii) the Bank has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available, or (iii) the Bank has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by Note Certificates in definitive form.

The Issuer will promptly give notice to Noteholders in accordance with Condition 14 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in the Global Note Certificate) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Bank may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than ten days after the date of receipt of the first relevant notice by the Registrar.

### **Transfers**

Transfers of interests in the Notes will be effected through the records of Euroclear and Clearstream, Luxembourg or any alternative clearing system and their direct and indirect participants.

### **Redemption and Purchase**

In the event of the purchase or redemption by or on behalf of the Bank, the Borrower, or any of the Borrower’s subsidiaries, as the case may be, and cancellation of a part of the Global Note Certificate in accordance with Condition 5 (*Redemption and Purchase*) of the Terms and Conditions of the Notes, the portion of the principal amount thereof so purchased, or redeemed, and cancelled shall be endorsed by or on behalf of the Registrar on behalf of the Bank on the schedule to the Global Note Certificate, whereupon the principal amount thereof shall be reduced by the amount so purchased and cancelled and endorsed. Upon the purchase or redemption of the whole of the Global Note Certificate in accordance with Condition 5 (*Redemption and Purchase*) of the Terms and Conditions of the Notes, the Global Note Certificate shall be surrendered to, or to the order of, the Registrar and cancelled. So long as the Notes are held on behalf of Euroclear or Clearstream, Luxembourg or any alternative clearing system, such purchases and

redemptions will be made in accordance with the procedures of Euroclear and Clearstream, Luxembourg or any alternative clearing system, as appropriate.

### Payments

To the extent that the Bank has actually received the relevant funds from the Borrower, payments of interest in respect of Notes represented by the Global Note Certificate will be made without presentation or, in the case of payment of interest due on redemption and the final payment of principal, against presentation and surrender of the Global Note Certificate to or to the order of the Registrar. Upon any payment of principal, the amount so paid shall be endorsed by or on behalf of the Registrar on behalf of the Bank on the schedule to the Global Note Certificate. Payment while Notes are represented by the Global Note Certificate will be made in accordance with the procedures of Euroclear and Clearstream, Luxembourg or any alternative clearing system.

### Meetings of Noteholders

The registered holder of the Global Note Certificate will be treated at any meeting of Noteholders as having one vote in respect of each U.S.\$1,000 principal amount of Notes for which the Global Note Certificate may be exchanged. The registered holder of the Global Note Certificate may grant (in accordance with the normal rules and operating procedures of, Euroclear or Clearstream, Luxembourg, or any alternative clearing system, as appropriate) proxies and otherwise authorise persons with an interest in the Notes in respect of which the Global Note Certificate has been issued to take any action which such registered holder is entitled to take in respect of such meeting.

### Notices

So long as any of the Notes are represented by the Global Note Certificate and the Global Note Certificate is held on behalf of Euroclear, Clearstream, Luxembourg, or any alternative clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg, or any alternative clearing system, for communication by it to entitled accountholders in substitution for notification as required by the Terms and Conditions of the Notes. Notices shall be valid if published in a leading newspaper of general circulation in Luxembourg (which is expected to be the *d'Wort*) or on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

### Trustee's Powers

In considering the interests of Noteholders in circumstances where the Global Note Certificate is being held on behalf of Euroclear and Clearstream, Luxembourg or any alternative clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (a) have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of a category) with entitlements in respect of the Global Note Certificate and (b) consider such interests on the basis that such accountholders were the Noteholders.

### Prescription

Claims for principal and interest on redemption shall become void unless the Global Note Certificate is surrendered for payment within ten years and claims for interest due other than on redemption shall become void unless the Global Note Certificate is surrendered within five years, of the appropriate Relevant Date (as defined in Condition 7 (*Taxation*)).

### Noteholders' Option

The Noteholders' option in Condition 5(c) (*Redemption at the Option of Noteholders upon a Change of Control*) may be exercised by the holder of the Global Note Certificate giving notice to the Principal Paying Agent of the principal amount of Notes in respect of which the option is exercised and presenting the Global Note Certificate for endorsement of exercise within the time limits specified in Condition 5(c) (*Redemption at the Option of Noteholders upon a Change of Control*).

---

# Form of Loan Agreement

Dated ● February 2007

OPEN JOINT STOCK COMPANY WIMM-BILL-DANN FOODS

as Borrower

and

UBS (LUXEMBOURG) S.A.

as Lender

LOAN AGREEMENT

U.S.\$150,000,000

## **Linklaters**

One Silk Street  
London EC2Y 8HQ  
Telephone (44-20) 7456 2000  
Facsimile (44-20) 7456 2222

---

## Table of Contents

## Page

1	Definitions and Interpretation.....	●
2	The Loan .....	●
3	Availability of the Loan.....	●
4	Interest Periods .....	●
5	Payment and Calculation of Interest .....	●
6	Repayment .....	●
7	Prepayment .....	●
8	Taxes.....	●
9	Tax Receipts .....	●
10	Changes in Circumstances.....	●
11	Representations and Warranties of the Borrower .....	●
12	Representations and Warranties of the Lender .....	●
13	Financial Information .....	●
14	Covenants .....	●
15	Events of Default .....	●
16	Default Interest and Indemnity .....	●
17	Amendments to Agreed Funding Source Agreements .....	●
18	Currency of Account and Payment .....	●
19	Payments.....	●
20	Costs and Expenses.....	●
21	Assignments and Transfers .....	●
22	Calculations and Evidence of Debt .....	●
23	Remedies and Waivers, Partial Invalidity .....	●
24	Notices; Language.....	●
25	Law and Jurisdiction.....	●

This Agreement is dated ● February 2007 between:

- (1) OPEN JOINT STOCK COMPANY WIMM-BILL-DANN FOODS, an open joint stock company organised under the laws of the Russian Federation (the “Borrower”); and
- (2) UBS (LUXEMBOURG) S.A., a bank established under the laws of Luxembourg and whose registered office is 36-38 Grand-Rue, L-1660 Luxembourg, Luxembourg (the “Lender”).

It is agreed:

## 1 Definitions and Interpretation

### 1.1 Definitions

In this Agreement the following terms have the meanings given to them in this Clause 1.1:

“Acceleration Notice” has the meaning set forth in Clause 15.2 (Rights of Lender upon occurrence of an Event of Default);

“Account” means an account of the Lender with The Bank of New York, account number 1067768400;

“Additional Amounts” has the meaning set forth in Clause 8.1.2 (Additional Amounts);

“Affiliate” of any specified Person means any other Person, directly or indirectly controlling, controlled by, or under direct or indirect common control with, such specified Person. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling”, “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; provided that beneficial ownership of 10 per cent. or more of the Capital Stock with voting power of a Person shall be deemed to be control;

“Agency” means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not);

“Asset Sale” means any lease, sale, sale and lease-back, transfer or other disposition (excluding any transaction by way of merger falling within Clause 14.6 (Mergers and Similar Transactions)) either in one transaction or in a series of related transactions, by the Borrower or any of its Subsidiaries to a Person that is not part of the Group, of any assets the value of which exceeds 10 per cent. of the total consolidated gross assets of the Group in any 12-month period; provided that “Asset Sale” shall not include sales or other dispositions of inventory, receivables or other current assets in the ordinary course of business;

“Board of Directors” means, as to any Person, the board of directors of such Person or any duly authorised committee thereof;

“Borrower” means the party named as such above until a successor replaces it in accordance with Clause 14.6 (Mergers and Similar Transactions) and thereafter means such successor;

“Business Day” means any day (other than a Saturday or Sunday) on which banks generally are open for business in New York City, Luxembourg and London;

“Capital Adequacy Requirement” means a request or requirement relating to the maintenance of capital, including one which makes any change to, or is based on any alteration in, the interpretation of the International Convergence of Capital Measurement and Capital Standards (the Basle Capital Accord prepared by the Basle Committee on Banking Regulations and Supervision, dated July 1988, and amended in November 1991) or which increases the amounts of capital required thereunder, other than a request or requirement made by way of implementation of the International

Convergence of Capital Measurement and Capital Standards in the manner in which it is being implemented at the date hereof;

“**Capital Stock**” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) or such Person’s equity, including any preferred stock of such Person, whether now outstanding or issued after the date hereof, including without limitation, all series and classes of such Capital Stock;

“**Change of Control**” means such time as any Person, other than an Excluded Person or Excluded Group, whether acting alone or together with other Persons, other than Excluded Persons or Excluded Groups: (i) is or becomes interested, directly or indirectly, in the aggregate of more than 50 per cent. of the Capital Stock with voting power of the Borrower, whether by virtue of issuance, sale or other disposition of such Capital Stock with voting power of the Borrower, a merger or a transaction having a similar effect involving the Borrower or such Person or Persons or any voting trust agreement or other agreement to which the Borrower or any such Person or Persons is or are a party or subject, or (ii) has or acquires the right to appoint or remove a majority of the Borrower’s board of directors, or (iii) has or acquires control of a majority of the voting rights in the Borrower, in each case in circumstances where, solely as a result of any such event as specified by the Rating Agencies, a Rating Decline would result;

“**Change of Control Payment Date**” means the date specified as such in the notice from the Borrower to the Lender pursuant to Clause 7.3.2 (Prepayment in the event of a Change of Control);

“**Change of Law**” means any of the enactment or introduction of any new law, the variation, amendment or repeal of an existing or new law, and any ruling on or interpretation or application by a competent authority of any existing or new law which, in each case, occurs after the date hereof and for this purpose the word “law” means all or any of the following whether in existence at the date hereof or introduced hereafter and with which it is obligatory or customary for banks or other financial institutions or, as the case may be, companies in the relevant jurisdiction to comply:

- (a) any statute, treaty, order, decree, instruction, letter, directive, instrument, regulation, ordinance or similar legislative or executive action by any national or international or local government or authority or by any ministry or department thereof and other agencies of state power and administration (including, but not limited to, taxation departments and authorities); and/or
- (b) any letter, regulation, decree, instruction, request, notice, guideline, directive, statement of policy or practice statement given by, or required of, any central bank or other monetary authority, or by or of any Taxing Authority or fiscal or other authority or agency (whether or not having the force of law),

the decision or ruling on, the interpretation or application of, or a change in the interpretation or application of, any of the foregoing by any court of law, tribunal, central bank, monetary authority or agency or any Taxing Authority or fiscal or other competent authority or agency;

“**Closing Date**” means 8 February 2007;

“**Consolidated EBITDA**” means operating profit or operating loss before depreciation and amortisation as calculated in accordance with the consolidated financial statements of the Borrower prepared in accordance with U.S. GAAP. Consolidated EBITDA shall be calculated for the four quarters immediately prior to the last reporting date and, in the case of an acquisition of any Subsidiary or any transaction by way of merger falling within Clause 14.6 (Mergers and Similar Transactions), Consolidated EBITDA shall be calculated as if such Subsidiary were acquired or such transaction by way of merger were completed on the first date of such four quarter period;

“**Credit Facilities**” means one or more credit agreements, loan agreements or similar facilities with banks or other institutional lenders, providing for revolving credit loans, term loans (including receivables financing (including through the sale of receivables to such lenders or to special purpose

entities formed to borrow from such lenders against such receivables)), bankers' acceptances or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time;

**"Default"** means any event that is, or after any notice or passage of time or both would be, an Event of Default;

**"Dispute"** has the meaning set forth in Clause 25.7 (Arbitration);

**"Event of Default"** has the meaning set forth in Clause 15.1 (Circumstances which constitute Events of Default);

**"Excluded Group"** means a "group" (as such term is used in Sections 13(d) and 14(d) of the United States Securities Exchange Act of 1934 (the **"Exchange Act"**)) that includes one or more Excluded Persons; provided that the voting power of the Capital Stock of the Borrower "beneficially owned" (as such term is used in Rule 13(d)-3 promulgated under the Exchange Act) by such Excluded Persons (without attribution to such excluded Persons of the ownership by other member or members of the "group") represents a majority of the voting power of the Capital Stock "beneficially owned" (as such term is used in Rule 13(d)-3 promulgated under the Exchange Act) by such group;

**"Excluded Person"** means Gavril A. Yushavaev, Mikhail V. Dubinin, Sergei A. Plastinin, Alexander S. Orlov and David Iakobachvili;

**"Fair Market Value"** means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors of the Borrower or any Subsidiary of the Borrower, as the case may be (including a majority of the disinterested directors, if any) whose determination shall be conclusive if evidenced by a resolution of such Board of Directors;

**"Fee Letter"** means the letter from the Lender to the Borrower, dated 6 February 2007 setting out certain fees payable by the Borrower in connection with the Loan and the agreed funding source;

**"Group"** means the Borrower and its Subsidiaries taken as a whole;

**"Hedging Obligations"** means: (i) the obligations of any Person pursuant to any interest rate protection agreement (including, without limitation, interest rate swaps, caps, floors, collars, derivative instruments and similar agreements) and/or other types of interest hedging arrangements; and/or (ii) any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party;

**"Indebtedness"** means, with respect to any Person at any date of determination (without duplication):

- (a) all indebtedness of such Person for borrowed money;
- (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (c) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto);
- (d) all obligations of such Person to pay the deferred and unpaid purchase price of property, assets or services, which purchase price is due more than six months after the earlier of the date of placing such property in service or taking delivery and title thereof or the completion of such services;
- (e) all capitalised lease obligations of such Person;

- (f) all Indebtedness of other Persons secured by a Lien granted by such Person on any asset (the value of which, for these purposes, shall be determined by reference to the balance sheet in respect of the latest financial quarter of the Person providing the Lien) of such Person, whether or not such Indebtedness is assumed by such Person (but disregarding for this purpose Liens granted by a Subsidiary in favour of the Borrower or another Subsidiary or by the Borrower in favour of a Subsidiary, with respect to the property or assets, or any income or profits therefrom, of the Borrower or such Subsidiary;
- (g) all Indebtedness of other Persons guaranteed by such Person to the extent such Indebtedness is guaranteed by such Person; and
- (h) to the extent not otherwise included in this definition, net obligations of such Person under any currency or interest rate hedging agreements;

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations as described above, the maximum liability upon the occurrence of the contingency giving rise to the obligation; provided:

- (i) that the amount outstanding at any time of any Indebtedness issued with original discount is the face amount of such Indebtedness less the remaining unamortised portion of the original issue discount of such Indebtedness at such time as determined in conformity with U.S. GAAP;
- (ii) that Indebtedness shall not include Trade Payables, prepayments received on account of agreed sales and accrued current liabilities arising in the ordinary course of business, except those that are overdue;
- (iii) that Indebtedness shall not include grants to the Borrower from the Russian Government and/or any Russian local authority which do not need to be repaid but are still recorded as a liability in the Borrower's consolidated balance sheet;
- (iv) that Indebtedness shall not include any amounts guaranteed by the Borrower in respect of the debt of any Subsidiary or any amounts guaranteed by any Subsidiary in respect of the debt of the Borrower or any other Subsidiary or owed by the Borrower to any one or more of its Subsidiaries or amounts owed by any Subsidiary of the Borrower to any one or more of its other Subsidiaries or the Borrower;
- (v) that Indebtedness shall not include any liability for federal, state, local or other Taxes; and
- (vi) that Indebtedness shall not include obligations of any Persons (x) arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument inadvertently drawn against insufficient funds (which, for the avoidance of doubt, shall not include funds drawn against an overdraft facility of such Person) in the ordinary course of business; provided that such obligations are extinguished within two Business Days of their incurrence, (y) resulting from the endorsement of negotiable instruments for collection in the ordinary course of business and consistent with past business practices and (z) under stand-by letters of credit or guarantees to the extent collateralised by cash or cash equivalents;

**“Interest Payment Date”** means 14 November 2007 and 14 May 2008, being the last day of the corresponding Interest Period;

**“Interest Period”** means, except as otherwise provided herein, any of those periods mentioned in Clause 4 (Interest Periods);

**“Interest Rate”** means, except as otherwise provided herein, the interest rate specified in Clause 5.2 (Calculation of Interest);

“**Lien**” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof, any sale with recourse against the seller or any Affiliate of the seller, or any agreement to give any security interest);

“**Loan**” means the U.S.\$150,000,000 term loan granted to the Borrower by the Lender in this Agreement;

“**Luxembourg**” means the Grand Duchy of Luxembourg;

“**Material Adverse Effect**” means any material adverse effect on the business, financial condition or results of operations of the Borrower and its Subsidiaries taken as a whole;

“**Offering Memorandum**” means the Offering Memorandum of even date herewith prepared in connection with the issue of the Notes, as the same may be amended or supplemented on or before the Closing Date;

“**Officer**” means, with respect to a Person, the Chairman of the Board of Directors, the General Director, the Chief Executive Officer, the President, the Chief Financial Officer, the Controller, the Treasurer or the General Counsel of such Person;

“**Officers’ Certificate**” means a certificate signed by two Officers of the Borrower;

“**Permitted Liens**” means:

- (a) Liens securing the Loan;
- (b) Liens granted by a Subsidiary securing Indebtedness owing to the Borrower or another Subsidiary, with respect to the property or assets, or any income or profits therefrom, of such Subsidiary, as the case may be;
- (c) any Lien existing on the date of this Agreement;
- (d) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, material men, repairmen or other similar Liens arising in the ordinary course of business;
- (e) any Lien on any property or assets of any Person existing at the time such Person is acquired, merged or consolidated with or into the Borrower or any of its Subsidiaries and not created in contemplation of such event; provided that no such Lien shall extend to any other property or assets of such Person or to any other property or assets of the Subsidiaries of such Person or the Borrower or any of its Subsidiaries;
- (f) any Lien existing on any property or assets prior to the acquisition thereof by the Borrower or any of its Subsidiaries and not created in contemplation of such acquisition; provided that no such Lien shall extend to any other property or assets or any property or assets of the Borrower or any of its Subsidiaries;
- (g) any Lien on any property or assets securing Indebtedness of the Borrower or any of its Subsidiaries incurred or assumed for the sole purpose of Vendor Financing (including bank financing arranged by a vendor for the sole purpose of Vendor Financing); provided that (i) no such Lien shall extend to any other property or assets of the Borrower or any of its Subsidiaries other than the assets affixed thereto and the proceeds thereof, (ii) the aggregate principal amount of all Indebtedness secured by Liens on such property or assets does not exceed the purchase price of such property or assets and (iii) such Lien attaches to such property or assets within 90 days after the acquisition thereof;
- (h) any Lien securing Hedging Obligations so long as the related Indebtedness is permitted to be incurred under this Agreement and any such Hedging Obligation is not speculative;

- (i) any extension, renewal or replacement of any Lien described in Clauses (a) to (h) above, provided that (i) such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien, (ii) the amount of Indebtedness secured by such Lien is not increased and (iii) if the property or assets securing the Indebtedness subject to such Lien are changed in connection with such refinancing, extension or replacement, the Fair Market Value of such property or assets is not increased;
- (j) any Lien on the property or assets of the Borrower or any Subsidiaries of the Borrower securing Indebtedness of the Borrower or such Subsidiaries incurred under one or more Credit Facilities in an aggregate principal amount outstanding at any one time not to exceed 20 per cent. of the total assets of the Group determined by reference to the latest consolidated balance sheet of the Group; and
- (k) any Lien arising solely by operation of law which is discharged within 45 days of arising;

“**Person**” means any individual, corporation, partnership, joint venture, trust unincorporated organisation or government or any Agency or political subdivision thereof;

“**Proceedings**” has the meaning set forth in Clause 25.2 (English Courts);

“**Qualifying Jurisdiction**” means any jurisdiction to which the transfer or assignment of the Loan (or any rights, benefits and/or obligations hereunder) would not cause the Borrower to provide payments of Additional Amounts or Tax Indemnity Amounts when interest, principal and any other amounts paid under this Loan Agreement is paid to or from such jurisdiction;

“**Rating Agencies**” means Moody’s Investors Service Limited (“**Moody’s**”) or any successor to its rating agency business and Standard & Poor’s Ratings Services, a division of McGraw-Hill Companies, Inc. (“**S&P**”) or any successor to its rating agency business or any other rating agency that provides a corporate credit rating of the Borrower or a credit rating in respect of the Loan or of any instruments issued to the agreed funding source, if applicable;

“**Rating Categories**” means (1) with respect to S&P, any of the following categories (any of which may include a “+” or “-”): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (2) with respect to Moody’s, any of the following categories (any of which may include a “1”, “2” or “3”): Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories), and (3) the equivalent of any such categories of S&P or Moody’s used by another rating agency, if applicable;

“**Rating Decline**” means that at any time within 90 days (which period shall be extended so long as the corporate credit rating of the Borrower or the credit rating in respect of the Loan or of any instruments issued to the agreed funding source is under publicly announced consideration for possible downgrade by any Rating Agency) after the date of public notice of any transaction or series of transactions, or of the intention of the Borrower or of any Person to effect such a transaction or series of transactions, the corporate rating of the Borrower or the rating of the Loan or of any instruments issued to the agreed funding source is decreased by both or, if such ratings are at the relevant time provided by more than two Rating Agencies, by the majority of the relevant Rating Agencies by one or more Rating Categories as a result of such transaction or series of transactions, as specified by both or, if such ratings are at the relevant time provided by more than two Rating Agencies, by the majority of the relevant Rating Agencies;

“**Related Person**” of any Person means any other Person directly or indirectly owning:

- (a) 5 per cent. or more of the outstanding Capital Stock with voting power of such Person (or, in the case of a Person that is not a corporation, 5 per cent. or more of the equity interest in such Person); or
- (b) 5 per cent. or more of the combined voting power of the Capital Stock with voting power of such Person;

“**Repayment Date**” means 14 May 2008 or if such day is not a Business Day, the next succeeding Business Day;

“**Russia**” means the Russian Federation and any province or political subdivision or Agency thereof or therein, and “**Russian**” shall be construed accordingly;

“**Securities Act**” means the United States Securities Act of 1933, as amended;

“**Significant Subsidiary**” means any Subsidiary that:

- (a) for the most recent fiscal year of the Borrower, accounted for more than 5 per cent. of the consolidated revenues of the Borrower and its Subsidiaries;
- (b) as of the end of such fiscal year, was the owner of more than 5 per cent. of the consolidated assets of the Borrower and its Subsidiaries, all as set forth in the most recently available consolidated financial statements of the Borrower for such fiscal year; or
- (c) to which are transferred all or substantially all the assets and undertaking of a Subsidiary which immediately prior to such transfer is a Significant Subsidiary;

“**Stated Maturity**” means:

- (a) with respect to any Indebtedness, the date specified in such Indebtedness as the fixed date on which the final instalment of principal of such Indebtedness is due and payable; and
- (b) with respect to any scheduled instalment of principal of or interest on any Indebtedness, the date specified in such Indebtedness as the fixed date on which such instalment is due and payable;

“**Subsidiary**” means, with respect to any Person, (i) a corporation more than 50 per cent. of whose Capital Stock with voting power, under ordinary circumstances, to elect directors is at the time, directly or indirectly, owned by such Person, by such Person and one or more Subsidiaries of such Person or by one or more Subsidiaries of such Person, or (ii) a partnership in which such Person or a Subsidiary of such Person is, at the time, a general partner, or (iii) any other Person in which such Person, one or more Subsidiaries of such Person, or such Person and one or more Subsidiaries of such Person, directly or indirectly, at the date of determination thereof has (x) over a 50 per cent. ownership interest or (y) the power to elect or direct the election of a majority of the directors, members of the board of directors or other governing body of such Person;

“**Taxes**” has the meaning set out in Clause 8.1 (Additional Amounts);

“**Tax Indemnity Amounts**” has the meaning set out in Clause 8.3 (Tax Indemnity);

“**Taxing Authority**” has the meaning set out in Clause 8.1 (Additional Amounts);

“**Trade Payables**” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or guaranteed by such Person or guaranteed by any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services;

“**unpaid sum**” has the meaning set forth in Clause 16.1 (Default Interest Periods);

“**U.S. GAAP**” means U.S. generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board and statements and pronouncements of the Financial Accounting Standards Board (“**FASB**”) or, if FASB ceases to exist, any successor thereto; provided, however, that for purposes of determining compliance with this Agreement, “**U.S. GAAP**” means such generally accepted accounting principles as in effect on the date hereof;

“**Vendor Financing**” means any indebtedness of any Person owed to a vendor of materials or equipment for use in connection with the business of the Group in respect of or arising under or in connection with the supply of such materials or equipment by such vendor to such Person;

### Other Definitions:

“**agreed funding source**” shall mean any Person to whom the Lender owes any Indebtedness (including securities), which Indebtedness was incurred solely and expressly to fund the Loan (including a designated representative of such Person);

the “**equivalent**” on any given date in one currency (the “**first currency**”) of an amount denominated in another currency (the “**second currency**”) is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is (i) roubles and the second currency is (ii) U.S. dollars, or as the case may be euro (or vice versa), by the Central Bank of Russia, at or about noon (London time, Brussels time or Moscow time (as applicable) on such date for the purchase of the first currency with the second currency;

the “**Lender**” shall be construed so as to include it and any of its subsequent successors, assignees and chargees in accordance with their respective interests;

“**repay**” (or any derivative form thereof) shall, subject to any contrary indication, be construed to include “**prepay**” (or, as the case may be, the corresponding derivative form thereof); and

“**VAT**” shall be construed as a reference to value added tax including any similar tax which may be imposed in place thereof from time to time.

## 1.2 Interpretation

Unless the context otherwise requires:

- 1.2.1 a term has the meaning assigned to it;
- 1.2.2 an accounting term not otherwise defined has the meaning assigned to it in accordance with U.S. GAAP consistently applied;
- 1.2.3 “or” is not exclusive;
- 1.2.4 words in the singular include the plural, and words in the plural include the singular;
- 1.2.5 provisions apply to successive events and transactions;
- 1.2.6 references to sections of or rules under the Securities Act shall be deemed to include substitute, replacement or successor sections or rules adopted by the Commission from time to time; and
- 1.2.7 references to “**U.S.\$**” or “**U.S. dollars**” are to United States dollars and references to “**Roubles**” are to Russian roubles.

## 1.3 Statutes

Any reference in this Agreement to a statute shall be construed as a reference to such statute as the same may have been, or may from time to time be, amended or re-enacted.

## 1.4 Headings

Clause and Schedule headings are for ease of reference only.

## 1.5 Amended Documents

Except where the contrary is indicated, any reference in this Agreement to this Agreement, the Fee Letter or any other agreement or document shall be construed as a reference to this Agreement, the Fee Letter or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented.

## 2 The Loan

The Lender grants to the Borrower, upon the terms and subject to the conditions hereof, a single disbursement term loan facility in the amount of U.S.\$150,000,000.

## 3 Availability of the Loan

The Loan will be available by way of a single advance which will be made by the Lender to the Borrower, and the Borrower will draw down the Loan, on 8 February 2007, or such later date as may otherwise be agreed by the parties to this Agreement, if:

- 3.1 the Lender has not, prior to 8 February 2007, or such later date as may otherwise be agreed by the parties to this Agreement, notified the Borrower that it has not received the condition precedent documents as listed in the agreements entered into in connection with the agreed funding source in form and substance satisfactory to the Lender;
- 3.2 the Lender has received funding of the Loan from the agreed funding source; and
- 3.3 no event has occurred or circumstance arisen which would, whether or not with the giving of notice and/or the passage of time constitute an event described under Clause 15 (Events of Default) and the representations set out in Clause 11 (Representations and Warranties of the Borrower) are true and accurate in all material respects on and as of the proposed date for the making of the Loan.

## 4 Interest Periods

The period for which the Loan is outstanding shall be divided into two periods, the first shall commence on, and shall include, 8 February 2007 and shall end on, but exclude, 14 November 2007 and the second shall commence on, and shall include, the 14 November 2007 and shall end on, but exclude, 14 May 2008 (each, an “Interest Period”).

## 5 Payment and Calculation of Interest

### 5.1 Payment of interest

Not later than 10.00am (New York City time) one Business Day prior to each Interest Payment Date, the Borrower shall pay to the Account all accrued and unpaid interest, any Additional Amounts, and any Tax Indemnity Amounts, calculated to the last day of each Interest Period, on the outstanding principal amount of the Loan.

### 5.2 Calculation of interest

The amount of interest payable for any Interest Period shall be calculated by applying the rate of 7.50 per cent. per annum (the “Interest Rate”) to the amount of the Loan, dividing the product by two and rounding the resulting figure to the nearest cent, half a cent being rounded upwards. When interest is required to be calculated for any other period, it shall be calculated on the basis of a 360 day year consisting of 12 months of 30 days each, and in the case of an incomplete month, the actual number of days elapsed.

## 6 Repayment

Subject to Clause 15.2 (Rights of Lender upon occurrence of an Event of Default), and Clause 7 (Prepayment) and Clause 10.3.2 (Illegality), not later than 10.00 a.m. (New York City time) one Business Day prior to the Repayment Date, the Borrower shall repay in full the outstanding principal amount of the Loan and, to the extent not already paid in accordance with Clause 5.1 (Payment of Interest), all accrued and unpaid interest, any Additional Amounts, and any Tax Indemnity Amounts, calculated to the last day of the last Interest Period.

## **7 Prepayment**

### **7.1 Prepayment for tax reasons**

If, as a result of the application of or any amendment or clarification to, or change (including a change in interpretation or application) in, or determination under, the double taxation treaty between Russia and Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) or the laws or regulations of Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) or of any political sub-division thereof or any Agency therein, the Borrower would thereby be required to pay any Additional Amounts in respect of Taxes pursuant to Clause 8.1 (Additional Amounts), or pay any Tax Indemnity Amounts pursuant to Clause 8.3 (Tax Indemnity), then the Borrower may (without premium or penalty), upon not less than 30 calendar days' written irrevocable notice to the Lender (and, following the execution of the agreements entered into in connection with the agreed funding source, to the party designated by such agreements) including an Officers' Certificate of the Borrower, to the effect that the Borrower would be required to pay such Additional Amounts or Tax Indemnity Amounts, prepay the Loan in whole (but not in part) at any time together with all accrued and unpaid interest, any Additional Amounts and any Tax Indemnity Amounts; provided, however, that no such notice shall be given earlier than 90 calendar days prior to the earliest date on which the Borrower would be obligated to pay such Additional Amounts or Tax Indemnity Amounts, as the case may be.

### **7.2 Prepayment for reasons of increased costs**

The Borrower may, if it is required to make any payment by way of indemnity under Clause 10.1 (Increased Costs), subject to giving to the Lender not less than 30 calendar days' prior written notice to that effect (without premium or penalty), prepay the whole, but not part only, of the amount of the Loan, together with any amounts then payable under Clause 10.1 (Increased Costs) and accrued and unpaid interest, any Additional Amounts and Tax Indemnity Amounts, if any.

### **7.3 Prepayment in the event of a Change of Control**

**7.3.1** In the event of a Change of Control, the Borrower shall be required to prepay the Loan on the Change of Control Payment Date to the extent and in the amount that the Lender is required to pay the agreed funding source as a result thereof as set forth in a written notice by the Lender to the Borrower, including computation of such amount, given at least two Business Days prior to the Change of Control Payment Date.

**7.3.2** Promptly, and in any event within 10 calendar days after the date of any Change of Control, the Borrower shall deliver to the Lender (and, following the execution of the agreements entered into in connection with the agreed funding source, to the party designated by such agreements) a written notice in the form of an Officers' Certificate, which notice shall be irrevocable (but may, in respect of sub-clause (iii), be amended), stating:

- (i) that a Change of Control has occurred;
- (ii) the Change of Control Payment Date, which date shall be the next Business Day occurring on or after 60 calendar days from the such notice is delivered; and
- (iii) the circumstances and relevant facts giving rise to such Change of Control, including, to the extent available, information with respect to pro forma historical income, cash flow and capitalisation for the most recent complete financial period that is subject to a review by auditors, each after giving effect to such Change of Control and events causing such Change of Control, and the date upon which such Change of Control is deemed to have occurred.

7.3.3 On the Business Day prior to the Change of Control Payment Date, the Borrower shall deposit in the Account an amount in cash equal to the amount payable hereunder to the Lender by the Borrower.

**7.4 Notice of prepayment**

Without prejudice to any other requirement in this Agreement, any notice of prepayment given by the Borrower pursuant to Clause 7.1 (Prepayment for Tax Reasons) or Clause 7.2 (Prepayment for Reasons of Increased Costs) hereof, shall be irrevocable, shall specify the date upon which such prepayment is to be made and shall oblige the Borrower to make such prepayment one Business Day prior to such date.

**7.5 Costs of prepayment**

The Borrower shall, on the date of prepayment, pay all accrued and unpaid interest, any Additional Amounts and any Tax Indemnity Amounts (each only with respect to the amount subject to such prepayment), as of such date of prepayment and all other amounts payable to the Lender hereunder in connection with such prepayment. The Borrower shall indemnify the Lender on demand against any costs and expenses reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 7 (Prepayment).

**7.6 No other repayments**

The Borrower shall not repay the whole or any part of the amount of the Loan except at the times and in the manner expressly provided for in this Agreement.

**7.7 Purchase of instruments issued to the agreed funding source**

The Borrower and its Subsidiaries may purchase instruments issued to the agreed funding source at any time in the open market or otherwise. If such instruments are surrendered by the Borrower or any of its Subsidiaries to the Lender, as issuer of such instruments, for cancellation (together with an authorisation addressed to the agent of the Lender to cancel such instruments), the Lender shall credit the Borrower with the prepayment of an amount of the Loan equal to the principal amount of such cancelled instruments.

**8 Taxes**

**8.1 Additional amounts**

8.1.1 Subject to Clause 8.1.2, all payments made by the Borrower under or with respect to the Loan will be made free and clear of, and without withholding or deduction for, or on account of any present or future tax, duty, levy, impost, assessment, or other governmental charge (including penalties, interest and other liabilities related thereto) (collectively, “Taxes”) imposed or levied by or on behalf of any government or political subdivision or territory or possession of any government or authority or Agency therein or thereof having the power to tax (each, a “Taxing Authority”) within Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), unless the Borrower is required to withhold or deduct Taxes by law or by the interpretation or administration thereof. For the avoidance of doubt, this Clause 8.1 shall not apply to any taxes on income payable by the Lender.

8.1.2 If at any time the Borrower is required to withhold or deduct any amount for or on account of Taxes imposed or levied by or on behalf of any Taxing Authority within Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) from any payment made under or with respect to the Loan, the Borrower shall, on the due date for such payment, pay such additional amounts

(“**Additional Amounts**”) as may be necessary so that the net amount received by the Lender (including Additional Amounts) in U.S. dollars after such withholding or deduction will not be less than the amount the Lender would have received if such Taxes had not been withheld or deducted and free from liability in respect of such withholding or deduction; provided, however, that for the avoidance of doubt, such Additional Amounts shall not be payable with respect to any Taxes on income payable by the Lender.

**8.1.3** The Borrower will also:

- (i) make such withholding or deduction; and
- (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law.

**8.1.4** If the Lender pays any amount in respect of such Taxes in respect of which Additional Amounts are payable (without prejudice to, and duplication of, the provisions of Clause 8.3 (Tax Indemnity)), the Borrower shall reimburse the Lender in U.S. dollars for such payment on demand.

**8.1.5** Whenever this Agreement mentions, in any context, the payment of amounts based upon the principal or premium, if any, interest or of any other amount payable under or with respect to the Loan, this includes, without duplication, payment of any Additional Amounts and Tax Indemnity Amounts that may be applicable.

The foregoing provisions shall apply, modified as necessary, to any Taxes imposed or levied by any Taxing Authority in any jurisdiction in which any successor of the Borrower is organised.

## **8.2 Payments**

The Lender shall assist the Borrower in ensuring that all payments made under this Agreement are exempt from deduction or withholding of Tax.

## **8.3 Tax indemnity**

Without prejudice to, and without duplication of, the provisions of Clause 8.1 (Additional Amounts):

**8.3.1** if at any time the Lender makes or is required to make any payment to a Person (other than to or for the account of the agreed funding source) on account of Tax (other than Taxes on income payable by the Lender) in respect of the Loan or in respect of any instruments issued to, or documents entered into with, the agreed funding source imposed by any Taxing Authority of or in Russia, Luxembourg or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes, or any liability in respect of any such Tax is asserted, imposed, levied or assessed against the Lender, the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender, indemnify the Lender against such payment or liability, together with any interest, penalties, costs and expenses payable or incurred in connection therewith; and

**8.3.2** if at any time a Taxing Authority imposes an obligation on the Lender to withhold or deduct any amount on any payment made or to be made by the Lender to or for the account of the agreed funding source and the Lender is required by any instruments issued to, or documents entered into with, the agreed funding source, to pay additional amounts to such agreed funding source in connection therewith, the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender, pay to the Lender such additional amounts as may be necessary so that the net amount received by the agreed funding source (including such additional amounts) in

U.S. dollars after such withholding or deduction will not be less than the amount such agreed funding source would have received if such withholdings or deductions had not been made and free from liability in respect of such withholding or deduction.

Any payments required to be made by the Borrower under this Clause 8.3 are collectively referred to as “**Tax Indemnity Amounts**”. For the avoidance of doubt, the provisions of this Clause 8.3 shall not apply to any withholding or deductions of Taxes with respect to the Loan which are subject to payment of Additional Amounts under Clause 8.1 (Additional Amounts).

#### **8.4 Tax claims**

If the Lender intends to make a claim for any Tax Indemnity Amounts pursuant to Clause 8.3 (Tax Indemnity), it shall notify the Borrower thereof; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

#### **8.5 Tax credits and tax refunds**

**8.5.1** If any Additional Amounts are paid under Clause 8.1 (Additional Amounts) or Tax Indemnity Amounts are paid under Clause 8.3 (Tax Indemnity) by the Borrower for the benefit of the Lender and the Lender, in its reasonable opinion, determines that it has received or been granted a credit against, a relief or remission for, or a repayment of, any Tax, then, if and to the extent that the Lender, in its reasonable opinion, determines that such credit, relief, remission or repayment is in respect of or calculated with reference to the deduction or withholding giving rise to such Additional Amounts or, in the case of Tax Indemnity Amounts, with reference to the liability, expense or loss to which the payment giving rise to such Tax Indemnity Amounts relates, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower such amount as the Lender shall, in its reasonable opinion, have concluded to be attributable to such deduction or withholding or, as the case may be, such liability, expense or loss; provided that the Lender shall not be obliged to make any payment under this Clause 8.5 in respect of such credit, relief, remission or repayment until the Lender is, in its reasonable opinion, satisfied that its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled. Any such payment shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or prepayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to the Borrower hereunder and shall be accepted by the Borrower in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding. Nothing contained in this Clause 8.5 shall interfere with the right of the Lender to arrange its tax affairs generally in whatever manner it thinks fit nor oblige the Lender to disclose any information relating to its tax affairs generally or any computations in respect thereof.

**8.5.2** If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed by Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) (i) such Tax is deducted or withheld by the Borrower and pursuant to Clause 8.1 (Additional Amounts) an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding, and (ii) following the deduction or withholding of Tax as referred to above, (A) the Borrower applies on behalf of the Lender to the relevant Russian Taxing Authorities for a tax refund and such tax refund is credited by the Russian Taxing Authorities to the Lender or (B) if such tax refund is otherwise credited by a relevant Taxing Authority to the Lender pursuant to a final decision of such Taxing Authority, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such tax refund and promptly transfer the entire amount of the tax refund to a bank account of the Borrower specified for that purpose by the Borrower.

### 8.6 Representations of the Lender

The Lender represents that (a) it is a bank which at the date hereof is a resident of Luxembourg, is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg; (b) it will account for the Loan on the date of closing on its balance sheet as an asset under “loans and advances to customers” and any arrangements with the agreed funding source as a liability under “liabilities evidenced by paper”; and (c) at the date hereof, it does not have a permanent establishment in Russia.

The Lender shall make reasonable and timely efforts to assist the Borrower to obtain relief from withholding of Russian income tax pursuant to the double taxation treaty between Russia and the jurisdiction in which the Lender is incorporated, including its obligations under Clause 8.8 (Delivery of Forms). The Lender makes no representation as to the application or interpretation of any double taxation treaty between Russia and the jurisdiction in which the Lender is incorporated.

### 8.7 Exceptions

The Lender agrees promptly, upon becoming aware of such, to notify the Borrower if it ceases to be resident in Luxembourg or a Qualifying Jurisdiction or if any of the representations set forth in Clause 8.6 (Representations of the Lender) are no longer true and correct. If the Lender ceases to be resident in Luxembourg or a Qualifying Jurisdiction, then, except in circumstances where the Lender has ceased to be resident in Luxembourg or a Qualifying Jurisdiction by reason of any Change of Law (including a change in a double taxation treaty or in such law or treaty’s application or interpretation), in each case taking effect after the date of this Agreement, the Borrower shall not be liable to pay to the Lender under Clause 8.1 (Additional Amounts) or Clause 8.3 (Tax Indemnity) any sum in excess of the sum it would have been obliged to pay if the Lender had not ceased to be resident in Luxembourg or a Qualifying Jurisdiction.

### 8.8 Delivery of forms

The Lender shall within 30 calendar days of the request of the Borrower, to the extent it is able to do so under applicable laws including Russian laws, deliver to the Borrower a certificate issued by the competent Taxing Authority in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) confirming that the Lender is a tax resident in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and such other information or forms as the Borrower may need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Russian Tax after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian Tax has not been obtained. The Lender shall, within 30 calendar days of the request of the Borrower, to the extent it is able to do so under applicable laws including Russian laws, from time to time deliver to the Borrower any additional duly completed application forms as need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Russian Tax or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian Tax has not been obtained. The certificate and, if required, other forms referred to in this Clause 8.8 shall be duly signed by the Lender, if applicable, and stamped or otherwise approved by the competent Taxing Authority in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and apostilled or otherwise legalised. If a relief from deduction or withholding of Russian Tax under this Clause 8.8 has not been obtained and further to an application of the Borrower to the relevant Russian Taxing Authorities the latter requests the Lender’s rouble bank account details, the Lender shall at the request of the Borrower (x) use reasonable efforts to procure that such rouble bank account of the Lender is duly opened and maintained, and (y) thereafter furnish the Borrower with

the details of such rouble bank account. The Borrower shall pay for all costs associated, if any, with opening and maintaining such rouble bank account.

**8.9 Tax treatment**

The Borrower and the Lender hereby agree to treat the Loan as a debt obligation of the Borrower payable to the Lender, as the beneficial owner of such debt obligation, for Russian and Luxembourg tax purposes.

**9 Tax Receipts**

**9.1 Notification of requirement to deduct tax**

If, at any time, the Borrower is required by law to make any deduction or withholding from any sum payable by it hereunder, or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated, the Borrower shall promptly notify the Lender.

**9.2 Evidence of payment of tax**

The Borrower will make all reasonable endeavours to obtain certified copies, and translations into English, of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Taxing Authority imposing such Taxes. The Borrower will furnish to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), within 60 calendar days after the date the payment of any Taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment by the Borrower or, if such receipts are not obtainable, other evidence of such payments by the Borrower.

**10 Changes in Circumstances**

**10.1 Increased costs**

If, by reason of (i) any Change of Law, other than a Change of Law which relates only to the basis or rate of Tax on the net income of the Lender or the amounts required pursuant to the Fee Letter, and/or (ii) compliance with any Capital Adequacy Requirement, reserve or deposit requirement or any other request from or requirement of any central bank or other fiscal, monetary or other authority which has effect in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes):

**10.1.1** the Lender incurs an additional cost as a result of the Lender's entering into or performing its obligations, including its obligation to make the Loan, under this Agreement (excluding Taxes payable by the Lender on its net income); or

**10.1.2** the Lender becomes liable to make any additional payment on account of Tax or otherwise, not being a tax imposed on its net income or the amounts due pursuant to the Fee Letter, on or calculated by reference to the amount of the Loan and/or to any sum received or receivable by it hereunder except where compensated under Clause 8.1 (Additional Amounts) or under Clause 8.3 (Tax Indemnity),

then the Borrower shall, from time to time within 30 calendar days of written demand of the Lender, pay to the Lender amounts sufficient to hold harmless and indemnify it from and against, as the case may be, such properly documented (1) cost or (2) liability; provided that the Lender will not be entitled to indemnification where such increased cost or liability arises as a result of the gross negligence, fraud or wilful default of the Lender; and provided that the amount of such increased cost shall be deemed not to exceed an amount equal to the proportion of any cost or liability which is directly attributable to this Agreement.

### 10.2 Increased costs claims

If the Lender intends to make a claim pursuant to Clause 10.1 (Increased Costs), it shall notify the Borrower thereof and provide a written description in reasonable detail of the relevant Change of Law or Capital Adequacy Requirement, as the case may be, including a description of the relevant affected jurisdiction or country and the date on which the change in circumstances took effect; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other person's affairs. The written description shall demonstrate the connection between the change in circumstance and the increased costs and shall be accompanied by relevant supporting documentation evidencing the matters described therein.

### 10.3 Illegality

If, at any time after the date of this Agreement, it is unlawful for the Lender to make, fund or allow to remain outstanding the Loan made or to be made by it hereunder or to maintain its agreed funding source of the Loan, then the Lender shall, after becoming aware of the same, deliver to the Borrower a written notice, setting out in reasonable detail the nature and extent of the relevant circumstances, to that effect and:

10.3.1 if the Loan has not then been made, the Lender shall not thereafter be obliged to make the Loan; and

10.3.2 if the Loan is then outstanding and the Lender so requests, the Borrower shall, on the latest date permitted by relevant law or, if such notice is received after the latest date permitted by relevant law, on the date which is three Business Days after such request is received by the Borrower, or such earlier day as the Borrower elects (as notified to the Lender upon not less than 30 calendar days' written notice prior to the date of repayment), repay the Loan together with accrued and unpaid interest thereon, any Tax Indemnity Amounts and all other amounts owing to the Lender hereunder.

### 10.4 Mitigation

If circumstances arise which would result in:

10.4.1 any payment falling due to be made by or to the Lender or for its account pursuant to Clause 10.3 (Illegality);

10.4.2 any payment falling due to be made by the Borrower pursuant to Clause 8.1 (Additional Amounts); or

10.4.3 a claim for indemnification pursuant to Clause 8.3 (Tax Indemnity) or Clause 10.1 (Increased Costs),

then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above mentioned provisions, the Lender shall, upon becoming aware of the same, notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take reasonable steps to remove such circumstances or mitigate the effects of such circumstances including, without limitation, by the change of its lending office or transfer of its rights or obligations under this Agreement to another bank; provided that the Lender shall be under no obligation to take any such action if, in its opinion, to do so might have any adverse effect upon its business, operations or financial condition or might be in breach of any arrangements which it may have made with the agreed funding source.

## 11 Representations and Warranties of the Borrower

The Borrower makes the following representations and warranties and acknowledges that the Lender has entered into this Agreement in reliance on those representations and warranties.

### 11.1 Due organisation

Each of the Borrower and its Subsidiaries has been duly incorporated and is validly existing as a legal entity in good standing (where such concept or an analogous concept exists) under the laws of its jurisdiction of incorporation and has full power and authority (corporate and other) to own or lease its properties and conduct its business as described in the Offering Memorandum, except where the failure to do so would not have a Material Adverse Effect; and the Borrower and each of its Subsidiaries is duly qualified to do business as a legal entity in good standing (where such concept or an analogous concept exists) in all jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except where the failure to do so would not have a Material Adverse Effect.

### 11.2 Authorisations

The Borrower has full corporate power and authority to enter into this Agreement, and this Agreement has been duly authorised, executed and delivered by the Borrower, and is a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, except that the enforcement thereof may be limited by (i) bankruptcy, insolvency, fraudulent transfer, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally and (ii) general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

### 11.3 No conflict

Neither the Borrower nor any of its Subsidiaries is in violation of its charter or by-laws or other constitutive documents; and no default exists, and no event has occurred which, with notice or lapse of time or both, would constitute a default in the due performance and observance of any term, covenant or condition of any agreement or instrument (for the avoidance of doubt including this Agreement) to which the Borrower or any of its Subsidiaries is a party or by which the Borrower or any of its Subsidiaries is bound or to which any of their respective properties is subject, except, in each case, where such violation, default or event would not, individually or in the aggregate, have a Material Adverse Effect.

The execution, delivery and performance of this Agreement by the Borrower, the compliance by the Borrower with all the provisions hereof and the consummation of the transactions contemplated hereby (a) will not require any consent, approval, authorisation or other order of any court, regulatory body, administrative agency or other governmental body (except such as may be required under the securities or Blue Sky laws of the various states of the United States or any securities laws of any jurisdiction other than Russia, Luxembourg, the United Kingdom and the Federal law of the United States) except for such consents, approvals, authorisations or other orders as have been obtained and which are in full force and effect and except for such consents as may be obtained within 30 days of the requirement for such consent arising, (b) will not conflict with or constitute a breach of any of the terms or provisions of, or constitute a default under, the charter or other constitutive documents of the Borrower, (c) will not conflict with or constitute a breach of any agreement, indenture or other instrument to which the Borrower or any of its Subsidiaries is a party or by which the Borrower, any of its Subsidiaries or their respective property or assets is bound, and (d) will not violate or conflict with any laws, administrative regulations or rulings or court decrees applicable to the Borrower, any of its Subsidiaries or their respective property, except, in the case of Clause (c), for any conflict, breach or violation which would not have a Material Adverse Effect.

### 11.4 Financial statements

The audited consolidated financial statements of the Borrower and the related notes thereto, as disclosed in the Offering Memorandum, were prepared in accordance with U.S. GAAP consistently applied throughout the periods involved and present fairly, in all material respects, the consolidated financial position of the Borrower as at the dates at which they were prepared and the results of the

operations and the cash flows of the Borrower in respect of the periods for which they were prepared. The other financial and statistical information and data, including, but not limited to, the 2003, 2004 and 2005 financial data as disclosed in the Offering Memorandum is, in all material respects, accurately presented and prepared on a basis consistent with such financial statements, where applicable, and the books and records of the Borrower and its Subsidiaries. Since 31 December 2005 (a) there has been no material adverse change in the condition (financial or otherwise) or affecting the business, prospects, financial position, or results of operations of the Borrower or the Borrower and its Subsidiaries taken as a whole, whether or not arising from transactions in the ordinary course of business; and (b) neither the Borrower nor any of its Subsidiaries has entered into any transaction or agreement material to the Borrower or to the Borrower and its Subsidiaries taken as a whole, other than in the ordinary course of business.

### 11.5 No other indebtedness

The Borrower has no Indebtedness, other than Indebtedness (a) as set forth in the 31 December 2005 audited consolidated balance sheet of the Borrower; (b) as disclosed in the Offering Memorandum or (c) that in the aggregate would not have a Material Adverse Effect.

### 11.6 Payment in U.S. Dollars

All payment obligations of the Borrower under this Agreement are required by the terms hereof to be paid in U.S. dollars, and the Borrower does not require any approvals, consents, licences and permissions to make and may make such payments in U.S. dollars.

### 11.7 Taxes

Except as disclosed in the Offering Memorandum, each of the Borrower and the Significant Subsidiaries has duly filed with the appropriate Taxing Authorities, or has received an extension for filing with respect to, all tax returns, reports and other information required to be filed by it, and each such tax return, report, or other information was, when filed, accurate and complete in all material respects; and, except as disclosed in the Offering Memorandum, each of the Borrower and the Significant Subsidiaries has duly paid, or has made adequate reserves for, all Taxes required to be paid by it and any other assessment, fine or penalty levied against it, and to the best of the Borrower's knowledge, no Tax deficiency is currently asserted against the Borrower or any of the Significant Subsidiaries, except, in each case, where any failure to do so would not have a Material Adverse Effect.

### 11.8 Litigation and contracts

Except as disclosed in the Offering Memorandum (which disclosure shall be disregarded for the purposes of Clause 11.21 (Repetition)): (A) there are no pending legal or governmental proceedings against the Borrower or any of its Subsidiaries or any of their respective properties and (B) there are no pending legal or governmental proceedings naming, and, to the best knowledge of the Borrower, there are no threatened legal or governmental proceedings against or naming, the Borrower or any of its Subsidiaries or any of their respective properties that, in each case, if determined adversely to the Borrower or any such Subsidiary, would individually or in the aggregate have a Material Adverse Effect or would have a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement and, to the best knowledge of the Borrower, no such proceedings are contemplated.

### 11.9 Labour

There are no labour disputes involving the employees of the Borrower or any of its Subsidiaries that exist, or to the best knowledge of the Borrower, that are threatened, except where such would not, individually or in the aggregate, have a Material Adverse Effect.

### 11.10 Title, licenses and consents

Except as disclosed in the Offering Memorandum, each of the Borrower and its Subsidiaries possesses all certificates, authorisations, licences and permits issued by appropriate governmental agencies or bodies necessary to conduct the business now conducted by it, except, in each case, where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect and neither the Borrower nor any of its Subsidiaries has received any notice of proceedings relating to the revocation or modification for any such certificate, authorisation or permit that, if determined adversely to the Borrower or any of its Subsidiaries, could have a Material Adverse Effect.

Except as disclosed in the Offering Memorandum, each of the Borrower and its Subsidiaries (A) has good and marketable title to all items of real property owned by it and good and marketable title to all other property and assets owned by it, in each case free and clear of any security interests, liens, encumbrances, equities, claims and other defects that would affect the value thereof or interfere with the use made or proposed to be made thereof by it, and (B) holds any real property and buildings leased by it under valid, subsisting and enforceable leases with no exceptions that would interfere with the use made or proposed to be made thereof by it, except, in the cases of each of (A) and (B), where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect.

Except as disclosed in the Offering Memorandum, the Borrower and each of its Subsidiaries owns or possesses all patents, patent applications, trademarks, service marks, trade names, licenses, copyrights and proprietary or other confidential information currently employed by it in connection with its business (collectively, “**intellectual property rights**”), except, in each case, where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect; and neither the Borrower nor any of its Subsidiaries has received any notice of infringement of or conflict with asserted rights of others with respect to any intellectual property rights that, if determined adversely to the Borrower or any of its Subsidiaries, could individually or in the aggregate have a Material Adverse Effect.

### 11.11 Adequate insurance

The Borrower and each of its Significant Subsidiaries has, where relevant, applied for insurance with an insurer or insurers of sufficient standing against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged in the jurisdiction where they operate, respectively; the Borrower and each of its Significant Subsidiaries has not been refused any insurance coverage sought or applied for; and the Borrower and each of its Significant Subsidiaries, where relevant, has no reason to believe that they will not be able to obtain, within 60 days of the date of the making of the Loan, such coverage as may be necessary to continue their business at a cost that would not have a Material Adverse Effect.

### 11.12 No withholding or similar tax

Under current laws and regulations of Russia and Luxembourg and any respective political subdivisions thereof, and based upon the representations of the Lender set forth in Clause 8.6 (Representations of the Lender) hereof, all payments of principal and/or interest, Additional Amounts, Tax Indemnity Amounts or any other amounts payable on or in respect of the Loan may be paid by the Borrower to the Lender in U.S. dollars and will not be subject to Taxes under laws and regulations of Russia and Luxembourg, or any political subdivision or Taxing Authority thereof or therein, respectively, and will otherwise be free and clear of any other Tax, duty, withholding or deduction in Luxembourg, Russia, or any political subdivision or Taxing Authority thereof or therein (provided, however, that the Borrower makes no representation as to any income or similar Tax of Luxembourg (or any Qualifying Jurisdiction) which may be assessed thereon) and without the necessity of obtaining any governmental authorisation in Russia or Luxembourg or any political subdivision or Taxing Authority thereof or therein.

**11.13 Not an investment company**

Without regard to the number or nature of the holders of their securities the Borrower is not and, after giving effect to the Loan and the application of the proceeds thereof will not be, required to register as an “investment company” as defined in the U.S. Investment Company Act of 1940, as amended.

**11.14 Rating**

No Rating Agency (a) has imposed (or has informed the Borrower that it is considering imposing) any condition (financial or otherwise) on the Borrower’s retaining any rating assigned to the Borrower or any securities of the Borrower or (b) has indicated to the Borrower that it is considering (i) the downgrading, suspension or withdrawal of, or any review for a possible change that does not indicate the direction of the possible change in, any rating so assigned or (ii) any change in the outlook for any rating of the Borrower, as applicable, or any securities of the Borrower.

**11.15 No liquidation or similar proceedings**

No receiver or liquidator (or similar person) has been appointed in respect of the Borrower or any Subsidiary of the Borrower or in respect of any part of the assets of the Borrower or any Subsidiary of the Borrower; no resolution, order of any court, regulatory body, governmental body or otherwise, or petition or application for an order, has been passed, made or presented for the winding up of the Borrower or any Subsidiary of the Borrower or for the protection of the Borrower or any such Subsidiary from its creditors; and the Borrower has not, and no Subsidiary of the Borrower has, stopped or suspended payments of its debts, become unable to pay its debts or otherwise become insolvent except, with respect to a Subsidiary of the Borrower, any such occurrence that (i) is in the ordinary course of, and incidental to, a reorganisation of the Group otherwise not prohibited by this Agreement and (ii) would not result in a Material Adverse Effect.

**11.16 Certificates**

Each certificate signed by any director or officer of the Borrower and delivered to the Lender or counsel for the Lender on the date of the making of the Loan shall be deemed to be a representation and warranty by the Borrower to the Lender as to the matters covered thereby.

**11.17 Pari passu obligations**

The obligations of the Borrower under this Agreement will rank at least *pari passu* in right of payment with all other unsecured and unsubordinated obligations of the Borrower, except as otherwise provided by mandatory provisions of applicable law.

**11.18 No stamp taxes**

Under the laws of Russia in force at the date hereof, it is not necessary that any stamp, registration or similar Tax be paid on or in relation to this Agreement.

**11.19 No events of default**

No event has occurred or circumstances arisen which would (whether or not with the giving of notice and/or the passage of time) constitute an event described in Clause 15 (Events of Default).

**11.20 Health, safety and environment**

Each of the Borrower and its Subsidiaries is in compliance with all statutes, and all rules, regulations, requirements, decisions and orders of, and agreements with, any governmental agency or body and any court, relating to the protection of human health and safety (including occupational health and safety), the use, handling, transportation, disposal or release of hazardous or toxic

substances, or the protection or restoration of the environment (collectively, “hse laws”), and has received, and is in compliance with all terms and conditions of, all permits, licences or other approvals required of it under applicable hse laws in order to conduct its business, except, in each case, where the failure to be in compliance with or receive such permits, licences or other approvals would not, individually or in the aggregate, have a Material Adverse Effect;

Neither the Borrower nor any of its Subsidiaries is subject to any claims, costs or liabilities associated with any hse laws (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with hse laws or to acquire or comply with the terms and conditions of any permit, licence or approval under any hse laws, any constraints on operating activities and any potential liabilities to third parties) which could, individually or in the aggregate, have a Material Adverse Effect; and, to the best of the Borrower’s knowledge, having made all due inquiries, there are no past or present events, conditions, circumstances, activities, practices, incidents or actions that would be reasonably likely to give rise to such costs, liabilities or claims;

### 11.21 Repetition

Each of the representations and warranties in Clause 11 (Representations and Warranties of the Borrower) shall be deemed to be repeated by the Borrower on the date of the making of the Loan and each of Clause 11.1 (Due Organisation) (solely with respect to the Borrower and provided that, upon the occurrence of a merger or sale of assets pursuant to Clause 14.6 (Mergers and Similar Transactions), the Borrower is the Surviving Entity), Clause 11.2 (Authorisations) Clause 11.3 (No Conflict) and Clause 11.8 (Litigation and Contracts) (solely with respect to any legal or governmental proceedings pending or, to the best knowledge of the Borrower, threatened in writing delivered to the Borrower, before any court, tribunal, arbitration panel or Agency challenging the lawfulness, validity or enforceability of this Agreement (except for any such proceedings as may have been disclosed in writing by the Borrower to the Lender prior to the relevant date of repetition) shall be deemed to be repeated and updated on each Interest Payment Date. The Borrower shall inform the Lender in writing of any breach or prospective breach of such deemed repeated representations and warranties as soon as it becomes aware of the same.

## 12 Representations and Warranties of the Lender

In addition to the representations and warranties set forth in Clause 8.6 (Representations of the Lender), the Lender makes the representations and warranties set out in Clause 12.1 (Status) to Clause 12.4 (No Conflicts), inclusive, and acknowledges that the Borrower has entered into this Agreement in reliance on those representations and warranties.

### 12.1 Status

The Lender is duly incorporated under the laws of Luxembourg and is resident in Luxembourg for taxation purposes and has full corporate power and authority to enter into this Agreement and any other agreements relating to the agreed funding source, and to undertake and perform the obligations expressed to be assumed by it herein and therein.

### 12.2 Authorisation

Each of this Agreement and any other agreements entered into in connection with the agreed funding source has been duly authorised, executed and delivered by the Lender, and is a legal, valid and binding obligation of the Lender, enforceable against the Lender in accordance with its terms, except that the enforcement thereof may be subject to bankruptcy, insolvency, fraudulent conveyance, reorganisation, moratorium and other similar laws relating to or affecting creditors’ rights generally and general equitable principles.

### **12.3 Consents and approvals**

All authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement and any other agreements relating to the agreed funding source and the performance by the Lender of the obligations expressed to be undertaken in such agreements have been obtained and are in full force and effect.

### **12.4 No conflicts**

The execution of this Agreement and any other agreements relating to the agreed funding source and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Luxembourg or the constitutive documents of the Lender.

## **13 Financial Information**

The Borrower will, at its own expense, so long the Loan remains outstanding, furnish to the Lender, copies of all reports and other communications (financial or other) furnished to stockholders of the Borrower and furnish to the Lender, (i) as promptly as practicable, copies of any reports and financial statements furnished to or filed with any securities exchange (other than any securities exchange in Russia) on which any class of securities of the Borrower is listed (such financial statements to be on a consolidated basis and prepared in accordance with U.S. GAAP consistently applied with the preceding period); and (ii) such additional publicly available information concerning the business and financial condition of the Borrower as the Lender may from time to time reasonably request. In addition, the Borrower shall furnish to the Lender, such information as the London Stock Exchange plc (or any other or further stock exchange or stock exchanges or any other relevant authority or authorities on which the instruments issued to the agreed funding source may, from time to time, be listed or admitted to trading) may require in connection with the listing or admittance to trading on such stock exchange or relevant authority of instruments issued to the agreed funding source.

(i) On each anniversary of this Agreement and (ii) within 14 days of any request by the Lender, the Borrower shall deliver to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), an Officers' Certificate (a) stating that to the best of each of the Officers' knowledge (i) the Borrower has kept, observed, performed and fulfilled each and every covenant, and complied with the covenants and conditions contained in this Agreement and (ii) the Borrower is not in default in the performance or observance of any of the terms, provisions and conditions hereof (or, if a Default or Event of Default shall have occurred, describing all such Defaults or Events of Default of which he may have knowledge) and (b) setting out the calculations of the ratios set out in Clause 14.10 and (c) identifying, as at a date no more than 14 days before the date of such certificate, those Subsidiaries which are significant Subsidiaries.

The Borrower will within 14 days of any reasonable request by the Lender provide the Lender with such further information other than information which the Borrower determines in good faith to be confidential about the business and financial condition of the Borrower and its Subsidiaries as the Lender may require (including (i) information deliverable pursuant to Clause 13.1.5 of the Trust Deed and (ii) an Officers' Certificate pursuant to Clause 13.1.5 of the Trust Deed detailing any instruments issued in respect of the agreed funding source held by or on behalf of the Borrower, its shareholders or any of its Subsidiaries).

## **14 Covenants**

### **14.1 Liens**

The Borrower will not, and will not permit any of its Subsidiaries to, create, incur, assume or suffer to exist any Lien (other than Permitted Liens) on any asset now owned or hereafter acquired, or any

income or profits therefrom, which secures any Indebtedness, unless the Loan and any other sum owing hereunder are secured by a Lien equally and rateably with the Liens securing such other Indebtedness; provided that if such Indebtedness is subordinated Indebtedness of the Borrower, the Lien securing such Indebtedness shall be subordinate or junior to the Lien securing the Loan, with the same relative priority as such Indebtedness shall have with respect to the Loan.

### 14.2 Stay, extension and usury laws

The Borrower covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Agreement; and the Borrower (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), but will suffer and permit the execution of every such power as though no such law had been enacted.

### 14.3 Asset sales

The Borrower will not, and will not permit any of its Subsidiaries to consummate any Asset Sale, unless the proceeds received by the Borrower or such Subsidiary, as the case may be, are at least equal to the Fair Market Value of the assets sold or disposed of (as determined in good faith by the Board of Directors of the Borrower or the relevant Subsidiary) and an amount equal to such proceeds (less any costs plus reasonable expenses incurred in relation to such Asset Sale) is either (a) applied to repay permanently any Indebtedness (other than subordinated Indebtedness) of the Borrower or any Subsidiary or (b) invested in assets (including Capital Stock) of a nature or type that is used or usable in the business of the Borrower or any Subsidiary, being any food and beverage business that the Borrower or any such Subsidiary may conduct at the relevant time, in each case within 360 days of the date when such proceeds are received.

### 14.4 Transactions with affiliates and related persons

14.4.1 Subject to sub-clause 14.4.2 below, the Borrower shall not, and shall not permit any Subsidiary to, directly or indirectly, enter into, permit to exist, renew or extend any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of property or assets, or the rendering of any service) (each a “**Transaction**”) with, or for the benefit of, any Related Person of the Borrower (or any Affiliate of such Person) or with, or for the benefit of, any Affiliate of the Borrower, unless any such Transaction or series of related Transactions is made upon fair and reasonable terms no less favourable to the Borrower or such Subsidiary, as the case may be, than could be obtained, at the time of such Transaction or, if such Transaction is pursuant to a written agreement, at the time of the execution of the agreement providing therefor, in a comparable arms'-length Transaction with, or for the benefit of, a Person that is not a Related Person of the Borrower (or any Affiliate of such Person) or an Affiliate of the Borrower.

No such Transaction shall be consummated unless, in the case of a Transaction or series of related Transactions involving aggregate consideration equal to or in excess of U.S.\$5 million, the Borrower or the relevant Subsidiary, as the case may be, obtains the approval of its Board of Directors.

14.4.2 The limitations in sub-clause 14.4.1 above shall not limit, and shall not apply to any Transaction or series of related Transactions solely between the Borrower and any of its Subsidiaries or solely between Subsidiaries of the Borrower.

14.5 Change of control

Upon the occurrence of a Change of Control, the Borrower shall prepay the Loan, in whole or in part, pursuant to and subject to the conditions described in Clause 7.3 (Prepayment in the event of a Change of Control), under the definition of Change of Control.

14.6 Mergers and similar transactions

14.6.1 Subject to sub-clause 14.6.2 below the Borrower shall not merge with or into or enter into a transaction whose effect would be similar to that of a merger (including, but not limited to, by way of an acquisition through a share-for-share exchange or contribution of assets) or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets (each a “merger”) to, any Person or permit any Person to merge with or into the Borrower:

- (i) unless the Borrower shall be the continuing Person, or the Person (if other than the Borrower) into which the Borrower is merged or that acquired or leased such property and assets of the Borrower (the “Surviving Entity”) shall be a company organised and validly existing under the laws of the Russian Federation or any other jurisdiction the organisation of the Surviving Entity under the laws of which would not, at the time of the relevant transaction, cause the Surviving Entity to be required to provide payments of Additional Amounts or Tax Indemnity Amounts, and shall expressly assume, by amendment hereto, executed and delivered by such Surviving Entity to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), in form and substance satisfactory to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), the due and punctual payment of the principal of and interest on the Loan, as the case may be, and the due and punctual performance and observance of all the covenants, conditions and other obligations of the Borrower in respect of the Loan and this Agreement;
- (ii) unless, in the case of a sale, conveyance, transfer, lease or other disposal of all or substantially all of the Borrower’s or its relevant Subsidiary’s property and assets, such property and assets shall have been transferred as an entirety or substantially an entirety in one transaction or a series of related transactions to one Person;
- (iii) unless immediately before and after giving effect to such transaction or series of transactions on a pro forma basis (and treating any Indebtedness which becomes, or is anticipated to become, an obligation of the Surviving Entity or any Subsidiary thereof as a result of such transaction or series of transactions as having been incurred by the Surviving Entity or such Subsidiary at the time of such transaction or series of transactions), no Default or Event of Default shall have occurred and be continuing;
- (iv) unless immediately before and after giving effect to such transaction or series of transactions on a pro forma basis (and treating any Indebtedness which becomes, or is anticipated to become, an obligation of the Surviving Entity or any Subsidiary thereof as a result of such transaction or series of transactions as having been incurred by the Surviving Entity or such Subsidiary at the time of such transaction or series of transactions) the Borrower or its Subsidiaries, or any Person becoming the successor obligor of the Loan would be able to incur an additional \$1.00 of Indebtedness pursuant to Clause 14.10 (Financial Covenant) hereof; and
- (v) unless the Borrower delivers to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements) an Officers’ Certificate (attaching the

arithmetic computations to demonstrate compliance with Clause 14.10 (Financial Covenant) hereof) and an opinion of counsel reasonably acceptable to the Lender, each in form and substance satisfactory to the Lender (and, following the execution of any supplemental agreements entered into in connection with the agreed funding source, to the party designated by such agreements) and in each case stating that such, merger or transfer and such supplemental agreement comply with this provision, that all legal conditions precedent provided for herein relating to such transaction have been complied with and that this Agreement and the Loan constitute legal, valid and binding obligations of the Surviving Entity, enforceable in accordance with their terms, subject, in the case of the opinion of counsel, to customary exceptions, qualifications and limitations.

- 14.6.2** The restrictions in sub-clauses 14.6.1(ii) and the Officers' Certificate referred to in (v) above shall not apply to any mergers between the Borrower and any of the Subsidiaries. The restrictions in sub-clauses 14.6.1(v) above shall not apply to any mergers between the Borrower and any of the Subsidiaries if: (i) both relevant entities are incorporated in Russia, (ii) both relevant entities have no business presence or tax residency outside Russia, and (iii) the Borrower (in the event of a merger involving the Borrower), is the Surviving Entity.

#### **14.7 Maintenance of authorisations**

So long as any amount remains outstanding hereunder:

- 14.7.1** the Borrower shall, and it shall procure that each of its Significant Subsidiaries shall take all necessary action to obtain and do or cause to be done all things necessary, in the opinion of the Borrower or the relevant Significant Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business;
- 14.7.2** the Borrower shall make or cause to be made all registrations, recordings and filings, and shall obtain and maintain all consents, licences, approvals and authorisations, which may at any time be required to be obtained or made in Russia or any other relevant jurisdiction for the purposes of the execution, delivery or performance of this Agreement and for the validity and enforceability thereof; and
- 14.7.3** if any regulation, decree, consent, approval, licence or other authority necessary to enable the Borrower to enter into or perform its obligations under this Agreement or for the validity or enforceability thereof expires or is withheld, revoked or terminated or otherwise ceases to remain in full force and effect or is modified in a manner which adversely affects any rights or claims of the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, of the party designated by such agreements) the Borrower shall ensure compliance with any such regulation, decree or other law or rule and/or take such action as would allow it, notwithstanding the coming into force of any such regulation, decree or other law or rule or such revocation of an approval, licence or other authority, to execute, deliver and perform this Agreement and maintain its validity and enforceability (including any rights or claims of the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, of the party designated by such agreements));

provided that, in any case if the Borrower or as the case may be, the relevant Significant Subsidiary can remedy any failure to comply with (i) and (ii) above and can remedy any event contemplated by (iii) above within 60 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

#### **14.8 Maintenance of property**

So long as any amount remains outstanding hereunder, the Borrower and its Significant Subsidiaries will cause all property used in the conduct of its or their business to be maintained and kept in good

condition, repair and working order and supplied with all necessary equipments and shall cause to be made all necessary repairs, renewals, replacements and improvements thereof, all as, in the judgments of the Borrower or any Significant Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times.

#### 14.9 Payment of taxes

The Borrower shall, and shall cause each of its Subsidiaries to pay or discharge, before the same shall become overdue all Taxes, assessments and governmental levies, except (i) as contested in good faith and by appropriate proceedings and for which adequate reserves, as determined by the Borrower, in accordance with appropriate accounting provisions have been made or (ii) the amount of which, together with all such other unpaid and undischarged Taxes, assessments and governmental levies does not in aggregate exceed U.S.\$15 million.

#### 14.10 Financial covenant

The Borrower shall not, and shall not permit any Subsidiary to, incur any Indebtedness, other than:

14.10.1 the Loan; and

14.10.2 any Indebtedness in circumstances where: (1) no Event of Default shall have occurred and be continuing at the time or would occur as a consequence of the incurrence of such Indebtedness, and (2) after giving effect to the incurrence of such Indebtedness on a pro forma basis and the receipt and application of the proceeds therefrom, immediately after such incurrence the ratio of the Borrower's consolidated Indebtedness to Consolidated EBITDA is 5:1 or lower;

If at any time the ratio of the Borrower's consolidated Indebtedness to Consolidated EBITDA is equal to or higher than 3.75:1 (the "Trigger Date") after giving effect to the incurrence of any proposed Indebtedness and the receipt and application of the proceeds therefrom on a pro forma basis, the Borrower will cause each Subsidiary that (i) is on the Trigger Date a guarantor of the Borrower's loan agreement (the "2008 Loan Agreement") relating to the US\$150,000,000 8.5% Loan Participation Notes due 2008 (the "2008 Notes") or (ii) if the 2008 Notes are not outstanding on the Trigger Date, would have been a guarantor of the 2008 Loan Agreement on the Trigger Date pursuant to the terms of the 2008 Loan Agreement as of the date of this Agreement, to execute and deliver a guarantee of the Loan in the form attached as Exhibit A hereto.

#### 14.11 No limitation on dividend or other payments affecting Subsidiaries

14.11.1 Subject to sub-clause 14.11.2 below, the Borrower shall not, and shall not cause or permit any of its Subsidiaries to, directly or indirectly create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Subsidiary to:

- (i) pay dividends or make any other distributions on or in respect of its Capital Stock to the Borrower or any Subsidiary of the Borrower or pay any Indebtedness owed to the Borrower or any such Subsidiary;
- (ii) make loans or advances to, or guarantee any Indebtedness or other obligations of the Borrower or any Subsidiary of the Borrower; or
- (iii) transfer any of its property or assets to the Borrower or any of the Borrower's Subsidiaries.

14.11.2 The provisions of sub-clause 14.11.1 above shall not restrict any encumbrance or restriction:

- (i) arising solely by operation of law;

- (ii) existing under an agreement in effect on the date hereof; provided, however, that the terms, conditions and scope of any such encumbrance or restriction included in any such agreement may be amended only if:
  - (a) such amended encumbrance or restriction, when taken together with all the other encumbrances and restrictions in such agreement (as amended), will not be materially more restrictive or disadvantageous (A) to the agreed funding source or the Borrower than the encumbrance or restriction being amended or (B) to the Borrower than is customary in comparable transactions (in each case, as determined by the Borrower); and
  - (b) the amended terms, conditions and scope of any such amended encumbrance or restriction, when taken together with the terms, conditions and scope of all the other encumbrances and restrictions in such agreement (as amended), will not materially adversely affect the Borrower's ability to make principal or interest payments on the Loan (as determined by the Borrower); or
- (iii) contained in the terms of any Indebtedness incurred in compliance with Clause 14.10 (Financial Covenant) hereof or in any agreement pursuant to which such Indebtedness was issued, if:
  - (a) the encumbrances and restrictions in any such agreement, when taken as a whole, will not be materially more restrictive or disadvantageous to the Borrower than is customary in comparable transactions (as determined by the Borrower); and
  - (b) the terms, conditions and scope of any such encumbrances and restrictions in any such agreement, when taken as a whole, will not materially adversely affect the Borrower's ability to make principal or interest payments on the Loan (as determined by the Borrower);

#### 14.12 Insurance

The Borrower and each of its Significant Subsidiaries will obtain and maintain insurance with an insurer or insurers of sufficient standing against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged in the jurisdiction where they operate, respectively, at a cost that would not have a Material Adverse Effect; provided that if the Borrower or any such Subsidiary can remedy any failure to comply with the above within 30 days, this covenant shall be deemed not to have been breached.

### 15 Events of Default

#### 15.1 Circumstances which constitute Events of Default

Each of the following constitutes an "Event of Default" with respect to the Loan:

- 15.1.1 default by the Borrower in the payment of principal of (or premium, if any, on) the Loan, in the currency and in the manner provided herein when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- 15.1.2 default by the Borrower in the payment of interest on the Loan, in the currency and in the manner provided herein when the same becomes due and payable if such default continues for a period of 15 Business Days;
- 15.1.3 failure by the Borrower to prepay the Loan in accordance with Clause 14.5 (Change of Control) hereof;

- 15.1.4 default by the Borrower in the performance or breach of any other provisions of this Agreement (except in relation to the representations and warranties of the Borrower and Clause 14.7 (Maintenance of Authorisations)) and (except where in any such case that failure is not capable of remedy) that failure continues for a period of 30 days following the submission by the Lender of a notice in writing requiring the breach to be remedied;
- 15.1.5 a failure to comply with Clause 14.7 hereof (Maintenance of Authorisations);
- 15.1.6 any representation and warranty of the Borrower in this Agreement or in any other documents, certificate or notice delivered to the Lender in connection with this Agreement or any instruments issued to the agreed funding source proves to be inaccurate, incomplete or misleading in any material respect at the time it was made or repeated or deemed to have been made or repeated if not remedied within 30 days;
- 15.1.7 any Indebtedness of either the Borrower or any of its Subsidiaries is not paid when due (taking into account any originally applicable grace period), or any Indebtedness of either the Borrower or any of its Subsidiaries is either declared to be or otherwise becomes due and payable prior to its Stated Maturity (otherwise than at the option of the Borrower or any of its Subsidiaries, as the case may be, or (provided that no Event of Default has occurred) any person entitled to such Indebtedness; provided, however, that the total amount of such Indebtedness which is not paid when due or becomes due and payable prior to its Stated Maturity is equal to or greater than U.S.\$15 million (or its equivalent in another currency) disregarding any guarantee of the Borrower or its Subsidiaries given in respect of such Indebtedness owed by the Borrower or its Subsidiaries, as the case may be;
- 15.1.8 any final judgment or order (not covered by insurance) for the payment of money in excess of U.S.\$10 million (or, to the extent non-U.S. dollar denominated, the U.S. dollar equivalent of such amount) in the aggregate for all such final judgments or orders against all such Persons (treating any deductibles, self-insurance or retention as not so covered) shall be rendered against the Borrower or any Significant Subsidiary and shall not be paid or discharged, and there shall be any period of 60 consecutive calendar days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed U.S.\$10 million (or, to the extent non-U.S. dollar denominated, the U.S. dollar equivalent of such amount) during which a stay of enforcement of such final judgment or order, by reason of a pending appeal or otherwise, shall not be in effect;
- 15.1.9 the validity of this Agreement is contested by the Borrower or the Borrower shall deny any of its obligations under this Agreement; or it is, or will become, unlawful for the Borrower to perform or comply with any of its obligations under or in respect of this Agreement or any of such obligations shall become unenforceable or cease to be legal, valid and binding,;
- 15.1.10 a decree, judgment, or order by any Agency or a court of competent jurisdiction shall have been entered adjudging the Borrower or any of its Significant Subsidiaries as bankrupt or insolvent, or approving as properly filed a petition seeking reorganisation of the Borrower or any of its Significant Subsidiaries under any bankruptcy or similar law, and such decree or order shall have continued undischarged and unstayed for a period of 60 days; or a decree or order of a court of competent jurisdiction over the appointment of a receiver, liquidator, trustee, or assignee in bankruptcy or insolvency of the Borrower or any of its Significant Subsidiaries, or any substantial part of the assets or property of any such Person, or for the winding up or liquidation of the affairs of any such Person, shall have been entered, and such decree, judgment or order shall have remained in force undischarged and unstayed for a period of 60 days; or
- 15.1.11 the Borrower or any of its Significant Subsidiaries shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganisation under any

bankruptcy or similar law or similar statute, or shall consent to the filing of any such petition, or shall consent to the appointment of a custodian, receiver, liquidator, trustee or assignee in bankruptcy or insolvency of it or any substantial part of its assets or property, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or shall, within the meaning of any bankruptcy law, become insolvent, fail generally to pay its debts as they become due, or takes any corporate action in furtherance of or to facilitate, conditionally or otherwise, any of the foregoing.

## 15.2 Rights of Lender upon occurrence of an Event of Default

15.2.1 If an Event of Default occurs under this Agreement and is continuing, the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, the party designated by such agreements) may, by written notice (an “Acceleration Notice”) to the Borrower, if the Lender, (and, following the execution of any other agreements entered into in connection with the agreed funding source, the party designated by such agreements) receives written instructions from the agreed funding source,

- (i) declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate, and
- (ii) declare the principal amount of, premium, if any, and accrued and unpaid interest, Additional Amounts and Tax Indemnity Amounts, if any, on the Loan to be immediately due and payable and the same shall become immediately due and payable,

pursuant to and in accordance with the terms of any agreements entered into in connection with the agreed funding source.

15.2.2 If an Event of Default specified in Clause 15.1.8, 15.1.9 or 15.1.10 occurs with respect to the Borrower or any of its relevant Significant Subsidiaries, the obligations of the Lender hereunder shall immediately terminate, and the principal amount of, premium, if any, and accrued and unpaid interest, Additional Amounts and Tax Indemnity Amounts, if any, on the Loan then outstanding shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, of the party designated by such agreements), all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

## 15.3 Other remedies

If an Event of Default occurs and is continuing, the Lender by notice to the Borrower (and, following the execution of any other agreements entered into in connection with the agreed funding source, the party designated by such agreements) may pursue any available remedy to collect the payment of principal or interest on the Loan or to enforce the performance of any provision of this Agreement. A delay or omission by the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, by the party designated by such agreements) in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. All remedies are cumulative to the extent permitted by law.

## 15.4 Notification of Default or Event of Default

The Borrower shall promptly on becoming aware thereof inform the Lender of the occurrence of any Default or Event of Default and, upon receipt of a written request to that effect from the Lender, confirm

to the Lender that, save as previously notified to the Lender or as notified in such confirmation, no Default or Event of Default has occurred.

### **16 Default Interest and Indemnity**

#### **16.1 Default Interest Periods**

If any sum due and payable by the Borrower hereunder is not paid on the due date therefor in accordance with the provisions of Clause 19 (Payments) or if any sum due and payable by the Borrower under any judgement of any court in connection herewith is not paid on the date of such judgment, the period beginning on such due date or, as the case may be, the date of such judgment and ending on the date upon which the obligation of the Borrower to pay such sum (the balance thereof for the time being unpaid being herein referred to as an “**unpaid sum**”) is discharged shall be divided into successive periods, each of which, other than the first, shall start on the last day of the preceding such period and the duration of each of which shall, except as otherwise provided in this Clause 16 (Default Interest and Indemnity), be selected by the Lender, but shall in any event not be longer than one month.

#### **16.2 Default Interest**

During each such period relating thereto as is mentioned in Clause 16.1 (Default Interest Periods) an unpaid sum shall bear interest at a rate per annum equal to the Interest Rate.

#### **16.3 Payment of Default Interest**

Any interest which shall have accrued under Clause 16.2 (Default Interest) in respect of an unpaid sum shall be due and payable and shall be paid by the Borrower at the end of the period by reference to which it is calculated or on such other dates as the Lender may specify by written notice to the Borrower.

#### **16.4 Borrower's indemnity**

The Borrower undertakes to indemnify the Lender against any reasonably incurred and properly documented cost, claim, loss, expense (including legal fees) or liability, together with any VAT thereon, which it may sustain or incur as a consequence of the occurrence of any Event of Default or any default by the Borrower in the performance of any of the obligations expressed to be assumed by it in this Agreement.

The Borrower also undertakes to indemnify the Lender against any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees) arising out of, or in connection with any instruments issued to the agreed funding source, or based on any dispute or issue arising out of, or in connection with, any instruments issued to the agreed funding source.

#### **16.5 Unpaid sums as advances**

Any unpaid sum shall, for the purposes of this Clause 16 (*Default Interest and Indemnity*) and Clause 10.1 (Increased Costs), be treated as an advance and accordingly in this Clause 16 (Default Interest and Indemnity) and Clause 10.1 (Increased Costs) the term “**Loan**” includes any unpaid sum and the term “**Interest Period**,” in relation to an unpaid sum, includes each such period relating thereto as is mentioned in Clause 16.1 (Default Interest Periods).

### **17 Amendments to Agreed Funding Source Agreements**

Any amendment to, or waivers of any provision of, any agreements entered into in connection with the agreed funding source shall be prohibited without the express written consent of the Borrower, which consent shall not be unreasonably withheld (other than amendments or waivers that are made pursuant to

any legal, regulatory or accounting requirement, with respect to which the Lender shall consult with the Borrower to the extent reasonably practicable).

**18 Currency of Account and Payment**

**18.1 Currency of account**

The U.S. dollar is the currency of account and payment for each and every sum at any time due from the Borrower hereunder.

**18.2 Currency indemnity**

If any sum due from the Borrower under this Agreement or any order or judgment given or made in relation hereto has to be converted from the currency (the “**first currency**”) in which the same is payable hereunder or under such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Borrower, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation hereto, the Borrower shall indemnify and hold harmless the Lender from and against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Lender may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

**19 Payments**

**19.1 Payments to the Lender**

On each date on which this Agreement requires an amount denominated in U.S. dollars to be paid by the Borrower, the Borrower shall make the same available to the Lender by payment in U.S. dollars and in same day funds on such date, or in such other funds as may for the time being be customary in London for the settlement in London of international banking transactions in U.S. dollars, to the Account. The Borrower shall procure that the bank effecting payment on its behalf confirms to the Lender or to such person as the Lender may direct by tested telex or authenticated SWIFT message three Business Days prior to the date that such payment is required to be made by this Agreement the payment instructions relating to such payment.

**19.2 Alternative payment arrangements**

If, at any time, it shall become impracticable, by reason of any action of any governmental authority or any Change of Law, exchange control regulations or any similar event, for the Borrower to make any payments hereunder in the manner specified in Clause 19.1 (Payments to the Lender), then the Borrower may agree with the Lender alternative arrangements for such payments to be made; provided that, in the absence of any such agreement, the Borrower shall be obliged to make all payments due to the Lender in the manner specified herein.

**19.3 No set-off**

All payments required to be made by the Borrower hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

**20 Costs and Expenses**

**20.1 Transaction expenses and fees**

The Borrower agrees to pay the Lender a fee, pursuant to the Fee Letter.

**20.2 Preservation and enforcement of rights**

The Borrower shall, from time to time on demand of the Lender and following receipt from the Lender of a description in writing in reasonable detail of the relevant costs and expenses, together with the relevant supporting documents evidencing the matters described therein, reimburse the Lender for all costs and expenses, including legal fees, together with any VAT thereon properly incurred in or in connection with the preservation and/or enforcement of any of its rights under this Agreement except where the relevant claim is successfully defended by the Borrower.

**20.3 Stamp taxes**

The Borrower shall pay all stamp, registration and other similar Taxes to which this Agreement or any judgement given against the Borrower in connection herewith is or at any time may be subject and shall, from time to time on demand of the Lender, indemnify the Lender against any properly documented liabilities, costs, expenses and claims resulting from any failure to pay or any delay in paying any such Tax.

**20.4 Lender's costs**

The Borrower shall, from time to time on demand of the Lender, and without prejudice to the provisions of Clause 20.2 (Preservation and Enforcement of Rights), compensate the Lender at such daily and/or hourly rates as the Lender shall from time to time reasonably determine for the time and expenditure, all costs and expenses (including telephone, fax, copying, travel and personnel costs) reasonably incurred and properly documented by the Lender in connection with its taking such action as it may deem appropriate or in complying with any request by the Borrower in connection with:

20.4.1 the granting or proposed granting of any waiver or consent requested hereunder by the Borrower;

20.4.2 any actual breach by the Borrower of its obligations hereunder; or

20.4.3 any amendment or proposed amendment hereto requested by the Borrower.

**21 Assignments and Transfers**

**21.1 Binding agreement**

This Agreement shall be binding upon and inure to the benefit of each party hereto and its or any subsequent successors and assigns.

**21.2 No assignments and transfers by the Borrower**

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder, except as permitted under Clause 14.6 (Mergers and Similar Transactions).

**21.3 Assignments by the Lender**

21.3.1 Prior to an Event of Default, the Lender may (i) on or at any time after the date hereof assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder (save for (x) its rights to principal, interest and other amounts paid and payable under this Agreement and (y) its right to receive amounts paid

and payable under any claim, award or judgment relating to this Agreement in favour of the agreed funding source (other than any rights arising under the indemnity in relation to instruments issued to the agreed funding source described in the second paragraph of Clause 16.4 (Borrower's Indemnity)) (the "afs indemnity") to or on behalf of the agreed funding source or, in the case of an assignment of the afs indemnity, to any relevant party who suffers or incurs, as the case may be, any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees) arising out of, or in connection with, or based on any dispute or issue arising in connection with the agreed funding source; and (ii) subject to the prior written consent of the Borrower (such consent not to be unreasonably withheld or delayed) and except as may be otherwise specifically provided under the agreements entered into in connection with the agreed funding source, assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder to any company which, as a result of any amalgamation, merger or reconstruction or which, as a result of any agreement with the Lender, or any previous substitute, owns beneficially the whole or substantially the whole of the undertaking, property and assets owned by the Lender prior to such amalgamation, merger, reconstruction or agreement coming into force and where, in the case of any company which will own the whole or substantially the whole of the undertaking, property or assets of the Lender, the substitution of that company as principal debtor in relation to the agreed funding source would not be materially prejudicial to the interests of the agreed funding source or the Borrower. Any reference in this agreement to any such assignee or transferee pursuant to sub-clause (ii) of this Clause 21.3.1 shall be construed accordingly and, in particular, references to the rights, benefits and obligations hereunder of the Lender, following such assignment or transfer, shall be references to such rights, benefits or obligations by the assignee or transferee.

**21.3.2** On or following an Event of Default, the Lender may, by notice to the Borrower, assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder to the agreed funding source, or any assignee or transferee appointed in connection with the agreed funding source. Any reference in this agreement to any such assignee or transferee shall be construed accordingly and, in particular, references to the rights, benefits and obligations hereunder of the Lender, following such assignment or transfer, shall be references to such rights, benefits or obligations by the assignee or transferee appointed in connection with the agreed funding source.

**21.3.3** Any reference in this Agreement to any party shall be construed accordingly in relation to 21.3.1 (i) and this Clause 21.3.2 and, in particular, references to the exercise of rights and discretions or the making of any determination by the Lender, shall include references to the exercise of such rights or discretions by or the making of such determination by the assignee or transferee appointed in connection with the agreed funding source (in its role as such). Notwithstanding the foregoing, the assignee or appointee shall not be entitled to participate in any determinations by the Lender or any discussions between the Lender and the Borrower or any agreements of the Lender or Borrower, pursuant to sub-Clauses 8.5, 8.8 and 10.4.

## **22 Calculations and Evidence of Debt**

### **22.1 Basis of accrual**

Default interest shall accrue from day to day and shall be calculated on the basis of a year of 360 days consisting of 12 30-day months.

### **22.2 Evidence of debt**

The Lender shall maintain, in accordance with its usual practice, accounts evidencing the amounts from time to time lent by and owing to it hereunder; in any legal action or proceeding arising out

of or in connection with this Agreement, in the absence of manifest error and subject to the provision by the Lender to the Borrower of written information describing in reasonable detail the calculation or computation of such amounts together with the relevant supporting documents evidencing the matters described therein, the entries made in such accounts shall be conclusive evidence of the existence and amounts of the obligations of the Borrower therein recorded.

### 22.3 Change of circumstance certificates

A certificate signed by two authorised signatories of the Lender describing in reasonable detail (a) the amount by which a sum payable to it hereunder is to be increased under Clause 8.1 (Additional Amounts) or (b) the amount for the time being required to indemnify it against any such cost, payment or liability as is mentioned in Clause 8.3 (Tax Indemnity) or Clause 10.1 (Increased Costs) shall, in the absence of manifest error, be *prima facie* evidence of the existence and amounts of the specified obligations of the Borrower.

## 23 Remedies and Waivers, Partial Invalidity

### 23.1 Remedies and waivers

No failure by the Lender to exercise, nor any delay by the Lender in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

### 23.2 Partial invalidity

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

## 24 Notices; Language

### 24.1 Communications in writing

Each communication to be made hereunder shall be made in writing and, unless otherwise stated, shall be made by fax or letter.

### 24.2 Delivery

Any communication or document to be made or delivered by one person to another pursuant to this Agreement shall, unless that other person has by 15 calendar days' written notice to the same specified another address, be made or delivered to that other person at the address identified with its signature below and shall be effective or when left at that address (in the case of a letter) or when received by the addressee (in the case of a fax). Provided that any communication or document to be made or delivered by one party to the other party shall be effective only when received by such other party and then only if the same is expressly marked for the attention of the department or officer identified with the such other party's signature below, or such other department or officer as such other party shall from time to time specify for this purpose.

### 24.3 Language

This Agreement shall be signed in English. Each communication and document made or delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied

by a translation thereof into English certified by an officer of the person making or delivering the same as being a true and accurate translation thereof.

**25 Law and Jurisdiction**

**25.1 English law**

This Agreement is governed by, and shall be construed in accordance with, English law.

**25.2 English courts**

Each of the Lender and the Borrower agrees that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which arise out of or in connection with this Agreement (“**Proceedings**”) and, for such purposes, irrevocably submit to the jurisdiction of such courts.

**25.3 Appropriate forum**

Each of the Lender and the Borrower irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.

**25.4 Service of process**

The Lender and the Borrower agree that the process by which any Proceedings in England are begun may be served on them by being delivered to UBS Limited and Law Debenture Corporate Services Limited, respectively, or their registered offices for the time being. If any such Person mentioned in this Clause is not or ceases to be effectively appointed to accept service of process on the Lender’s behalf, the Lender shall immediately appoint a further Person in England to accept service of process on its behalf. If such Person mentioned in this Clause is not or ceases to be effectively appointed to accept service of process on the Borrowers’ behalf, the Borrower shall immediately appoint a further Person in England to accept service of process on its behalf. Nothing in this Clause shall affect the right of either party hereto to serve process in any other manner permitted by law.

**25.5 Non-exclusivity**

The submission to the jurisdiction of the English courts in accordance with Clause 25.2 (English courts) hereof shall not, and shall not be construed so as to, limit the right of any party hereto to take Proceedings in any other court of competent jurisdiction.

**25.6 Consent to enforcement, etc.**

Each of the Lender and the Borrower consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including, without limitation, the making, enforcement or execution against any property whatsoever, irrespective of its use or intended use, of any order or judgement which is made or given in such Proceedings.

**25.7 Arbitration**

If any dispute or difference of whatever nature howsoever arises from or in connection with this Agreement, or any supplement, modifications or additions thereto (each a “**Dispute**”), the Lender may elect, by notice to the Borrower, to settle such claim by arbitration in accordance with the following provisions. The Borrower hereby agrees that (regardless of the nature of the Dispute) any Dispute may be settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the “**Rules**”) as at present in force by a panel of three arbitrators appointed in accordance with the Rules. The seat of any reference to arbitration shall be London, England. The procedural law of any

reference to arbitration shall be English law. The language of any arbitral proceedings shall be English. The appointing authority for the purposes set forth in Articles 7(2) and 7(3) of the Rules shall be the London Court of International Arbitration.

**25.8 Contracts (Rights of Third Parties) Act 1999**

A person who is not a party to this Agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

**25.9 Counterparts**

This Agreement may be signed in two or more counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

As witness the hands of the duly authorised representatives of the parties hereto the day and year first before written.

**Signature Page**

**Borrower**

**OPEN JOINT STOCK COMPANY WIMM-BILL-DANN FOODS**

By: .....

Title: Chief Financial Officer

By: .....

Title: Chief Accountant

**Notices:**

Open Joint Stock Company Wimm-Bill-Dann Foods  
Yauzsky Boulevard 16/15  
109028 Moscow  
The Russian Federation  
Fax: +7 095 105 5805

**Lender**

**UBS (LUXEMBOURG) S.A.**

By: .....

By: .....

**Notices:**

UBS (Luxembourg) S.A.  
36-38 Grand-Rue  
L-1600 Luxembourg  
Fax: +352-45 12 12 703

---

# Exhibit A

## Form of Guarantee

*The following is the text of the Guarantee, excluding the Schedule thereto, which will be entered into between the Guarantors and the Bank:*

This Deed of Guarantee is entered into on [●]

Between:

- (1) [●] and [●], and [●] (each a “**Guarantor**” and collectively, the “**Guarantors**”); and
- (2) UBS (LUXEMBOURG) SA., a bank established under the laws of Luxembourg and whose registered office is 36-38 Grand-Rue, L-1660 Luxembourg, Luxembourg (the “**Lender**”).

Whereas:

The Lender has agreed, pursuant to the terms of the Loan Agreement, to grant to the Borrower a single disbursement term loan facility in the amount of U.S.\$150,000,000 and each Guarantor has agreed to guarantee all the obligations of the Borrower to the Lender under the Loan Agreement on an irrevocable, unconditional, joint and several basis.

Now this Deed witnesseth as follows:

### Interpretation

Terms defined in the Loan Agreement dated 6 February 2007 (the “**Loan Agreement**”) between the Lender and Open Joint Stock Company Wimm-Bill-Dann Foods as Borrower (the “**Borrower**”) shall have the same meaning when used in this Guarantee except as otherwise stated and except that, for the purposes of this Guarantee:

- (A) the term “**Guarantor**” shall include any of the Borrower’s Subsidiaries from time to time guaranteeing the obligations of the Borrower under the Loan Agreement; and
- (B) the term “**Subsidiary**”, except as the context otherwise requires, shall be construed as a reference to the Subsidiary of the relevant Guarantor and shall not be deemed to include any Guarantor.
- (C) the term “**Significant Subsidiary**”, except as the context otherwise requires, shall be construed as a reference to the Subsidiary of the relevant Guarantor; and
- (D) references to the “**Borrower**” in terms defined in the Loan Agreement shall, as the context requires, be read as references to the “**Guarantor**”.

## 1 Guarantee and Indemnity

### 1.1 Guarantee and Indemnity

Each Guarantor irrevocably and unconditionally jointly and severally:

- (a) guarantees to the Lender the due punctual performance by the Borrower of all the Borrower’s obligations under the Loan Agreement;
- (b) undertakes with the Lender that whenever the Borrower does not pay any amount when due under or in connection with the Loan Agreement, that Guarantor shall immediately on demand pay or cause to be paid in full that amount as if it was the principal obligor to the Account; and
- (c) indemnifies the Lender immediately on demand against any cost, loss or liability suffered by the Lender if any obligation guaranteed by that Guarantor is or becomes unenforceable, invalid or illegal including any and all reasonable expenses properly documented, such as

legal fees and expenses incurred by the Lender in enforcing any rights under the Loan Agreement or this Guarantee.

**1.2 Continuing guarantee**

This Guarantee is a continuing guarantee and extends to the total balance of sums payable by the Borrower under the Loan regardless of any intermediate payment or discharge in whole or in part.

**1.3 Reinstatement**

If any payment by the Borrower is avoided or reduced or any discharge given by the Lender or the agreed funding source (whether in respect of the obligations of the Borrower or any security for those obligations or otherwise) as a result of any insolvency, reorganization or similar event in respect of the Borrower:

- (a) the liability of each Guarantor shall continue as if the payment, discharge, avoidance or reduction had not occurred; and
- (b) the Lender shall be entitled to recover the full amount of such payment from each Guarantor, as if the payment, discharge, avoidance or reduction had not occurred.

**1.4 Waiver of defences**

As between each Guarantor and the Lender, but without affecting the Borrower's obligations, each Guarantor will be liable as if it were the sole principal debtor and not merely a surety. Accordingly, such Guarantor will not be discharged nor will its liability be affected, by anything which would not discharge it or affect its liability if it were the sole principal debtor, including:

- (a) any time, waiver or consent granted to, or composition with, the Borrower or other person;
- (b) the release of the Borrower or any other person under the terms of any composition or arrangement with any creditor of any member of the Group;
- (c) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights against, or security over assets of, the Borrower or other person or any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;
- (d) any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of the Borrower or any other person;
- (e) any amendment (however fundamental) or replacement of the Loan Agreement or any other document or security;
- (f) any unenforceability, illegality or invalidity of any obligation of any person under the Loan Agreement or any other document (including any other guarantee given in respect of the Loan) or security or the absence of any action to enforce the same;
- (g) any insolvency or similar proceedings; or
- (h) any failure by any party to perform any requisite due diligence or to present any requisite document, claim, demand for payment, protest or notice with respect to the Loan Agreement.

**1.5 Immediate recourse**

Each Guarantor waives any right it may have of first requiring the Lender (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any

person before claiming from that Guarantor under this Guarantee. This waiver applies irrespective of any law or any provision of the Loan Agreement to the contrary.

#### 1.6 Appropriations

Until all amounts which may be or become payable by the Borrower pursuant to the terms of the Loan Agreement have been irrevocably paid in full, the Lender (or any trustee or agent on its behalf) may:

- (a) refrain from applying or enforcing any other moneys, security or rights held or received by the Lender (or any trustee or agent on its behalf) in respect of those amounts, or apply and enforce the same in such manner and order as it sees fit (whether against those amounts or otherwise) and no Guarantor shall be entitled to the benefit of the same; and
- (b) hold in an interest-bearing suspense account any moneys received from any Guarantor or on account of any Guarantor's liability under this Guarantee.

#### 1.7 Deferral of Guarantors' rights

Until all amounts which maybe or become payable by the Borrower pursuant to the terms of the Loan Agreement have been irrevocably paid in full no Guarantor will exercise any rights which it may have by reason of the performance by it of its obligations under this Guarantee:

- ( a) to be indemnified by the Borrower;
- ( b) to claim any contribution from any other Guarantor of the Borrower's obligations under the Loan Agreement; and/or
- ( c) to take the benefit (in whole or in part and whether by way of subrogation or otherwise) of any rights of the Lender under the Loan Agreement or of any other guarantee or security taken pursuant to, or in connection with, the Loan Agreement by the Lender.

#### 1.8 Additional security

This Guarantee is in addition to and is not in any way prejudiced by any other guarantee or security now or subsequently held by the Lender, for the avoidance of doubt including any other guarantee (present or future) given in connection with the Loan Agreement.

#### 1.9 Acceleration

Each Guarantor further agrees that, as between it, on the one hand, and the Lender, on the other hand, (i) for the purposes of this Guarantee, the maturity of the obligations guaranteed by this Guarantee may be accelerated as provided in Clauses 7 (*Prepayments*) and 15 (*Events of Default*) of the Loan Agreement, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the obligations guaranteed thereby; provided, however, that if a court of competent jurisdiction determines that the Loan was improperly accelerated pursuant to the terms thereof, then the maturity of such obligations may not be accelerated for the purposes of this Guarantee, and (ii) in the event of any acceleration of such obligations (whether or not due and payable) such obligations shall forthwith become due and payable by each Guarantor for purposes of this Guarantee.

#### 1.10 Termination and accession of Guarantors

Provided that the Borrower complies with the requirements of Clause 14.10 of the Loan Agreement, this Guarantee can be terminated in relation to any Guarantor at any time by the Borrower and the relevant Guarantor without the consent of the Lender (and, following the execution of any agreements entered into in connection with the agreed funding source, without the consent of the party designated by such agreements) provided that a notice of such intended termination is

delivered to the Lender (and, following the execution of the agreements entered into in connection with the agreed funding source, to the party designated by such agreements) not later than 15 days before such intended termination. Should the Borrower become subject to the requirement to procure additional guarantees in accordance with Clause 14.10 of the Loan Agreement the Subsidiary or Subsidiaries selected by the Borrower to become new or additional Guarantors (each, an “**New Guarantor**”) shall accede to this Guarantee by executing a deed of accession (the “**Deed of Accession**”), the form of which is attached hereto as the Schedule, with any necessary modifications arising from any applicable laws or regulations of the jurisdiction of incorporation of the relevant Guarantor.

## **2 Representations and Warranties of the Guarantor**

Each Guarantor makes, in respect of itself, the following representations and warranties and acknowledges that the Lender has entered into the Loan Agreement in reliance on these representations and warranties.

### **2.1 Due Organisation**

The Guarantor and its Subsidiaries have been duly incorporated and is validly existing as a legal entity under the laws of its jurisdictions of incorporation and has full power and authority (corporate and other) to own or lease its properties and conduct its business, except where the failure to do so would not have a material adverse effect in relation to that Guarantor and its subsidiaries taken as a whole (a “**Material Adverse Effect**”); and the Guarantor and each of its Subsidiaries is duly qualified to do business as a legal entity in all jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except where the failure to do so would not have a Material Adverse Effect.

### **2.2 Authorisations**

The Guarantor has full corporate power and authority to enter into this Guarantee, and this Guarantee has been duly authorised, executed and delivered by that Guarantor, and is a legal, valid and binding obligation of that Guarantor, enforceable against that Guarantor in accordance with its terms, except that the enforcement thereof may be limited by (i) bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other similar laws relating to or affecting creditors’ rights generally and (ii) general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

### **2.3 No Conflict**

Neither the Guarantor nor any of its Subsidiaries is in violation of its charter or by-laws or other constitutive documents; and no default exists, and no event has occurred which, with notice or lapse of time or both, would constitute a default in the due performance and observance of any term, covenant or condition of any agreement or instrument (for the avoidance of doubt including this Guarantee) to which the Guarantor or any of its Subsidiaries is a party or by which the Guarantor or any of its Subsidiaries is bound or to which any of their respective properties is subject, except, in each case, where such default or event would not, individually or in the aggregate, have a Material Adverse Effect.

The execution, delivery and performance of this Guarantee by the Guarantor, the compliance by the Guarantor with all the provisions hereof and the consummation of the transactions contemplated hereby (a) will not require any consent, approval, authorisation or other order of any court, regulatory body, administrative agency or other governmental body (except as may be required by any securities laws of any jurisdiction other than Russia, Luxembourg and the United Kingdom) except for such consents, approvals, authorisations or other orders as have been obtained and which are in full force and effect and except for such consents as may be obtained within 30 days of the requirement for such consent arising, (b) will not conflict with or constitute a breach of any of the

terms or provisions of, or constitute a default under, the charter or other constitutive documents of the Guarantor, (c) will not conflict with or constitute a breach of any agreement, indenture or other instrument to which the Guarantor or any of its Subsidiaries is a party or by which the Guarantor, any of its Subsidiaries or their respective property or assets are bound, and (d) will not violate or conflict with any laws, administrative regulations or rulings or court decrees applicable to that Guarantor, any of the its Subsidiaries or their respective property, except, in the case of clause (c), for any conflict, breach or violation which would not have a Material Adverse Effect.

#### **2.4 Financial Statements**

The audited financial statements of the Guarantor and the related notes thereto were prepared in accordance with U.S. GAAP consistently applied throughout the periods involved and present fairly, in all material respects, the financial position of the Guarantor as at the dates at which they were prepared and the results of the operations and the cash flows of the Guarantor in respect of the periods for which they were prepared. Since the latest audited financial statements of the Guarantor (a) there has been no material adverse change in the condition (financial or otherwise) or affecting the business, prospects, financial position, or results of operations of the Guarantor or the Guarantor and its Subsidiaries taken as a whole, whether or not arising from transaction; in the ordinary course of business; and (b) neither the Guarantor nor any of its Subsidiaries have entered into any transaction or agreement material to the Guarantor or to the Guarantor and its Subsidiaries taken as a whole, other than in the ordinary course of business.

#### **2.5 No Other Indebtedness**

The Guarantor has no Indebtedness, other than Indebtedness (a) as set forth in the 31 December 2005 audited consolidated balance sheet of the Guarantor; (b) as disclosed in Schedule I hereto or (c) that in the aggregate would not have a Material Adverse Effect.

#### **2.6 Payment in U.S. Dollars**

All payment obligations of the Guarantor under this Agreement are required by the terms hereof to be paid in U.S. dollars, and the Guarantor has received all required approvals, consents, licenses and permissions to make and may make such payments in U.S. dollars.

#### **2.7 Taxes**

Each of the Guarantor and its Subsidiaries that are also Significant Subsidiaries have duly filed with the appropriate Tax Authorities, or has received an extension for filing with respect to, all tax returns, reports and other information required to be filed by it, and each such tax return, report, or other information was, when filed, accurate and complete in all material respects; and each of the Guarantor and its Subsidiaries that are also Significant Subsidiaries has duly paid, or has made adequate reserves for, all Taxes required to be paid by it and any other assessment, fine or penalty levied against it, and to the best of that Guarantor's knowledge, no Tax deficiency is currently asserted against the Guarantor or any of its subsidiaries that are also Significant Subsidiaries, except, in each case, where any such failure to do so would not have a Material Adverse Effect.

#### **2.8 Litigation and Contracts**

(A) there are no pending legal or governmental proceedings against the Guarantor or any of its Subsidiaries or any of their respective properties and (B) there are no pending legal or governmental proceedings naming, and, to the best knowledge of the Guarantor, there are no threatened legal or governmental proceedings against or naming, that Guarantor or any of its Subsidiaries or any of their respective properties that, in each case, if determined adversely to the Guarantor or any such Subsidiary, would individually or in the aggregate have a Material Adverse Effect or would have a material adverse effect on the ability of that Guarantor to perform its obligations under this Guarantee and, to the best knowledge of that Guarantor, no such proceedings are contemplated;

## 2.9 Labour

There are no labour disputes involving the employees of the Guarantor or any of its Subsidiaries that exist, or to the best knowledge of the Guarantor, that are threatened, except where such would not, individually or in the aggregate, have a Material Adverse Effect.

## 2.10 Title, Licenses and Consents

Each of the Guarantor and its Subsidiaries possess all certificates, authorisations, licences and permits issued by appropriate governmental agencies or bodies necessary to conduct the business now conducted by it, except, in each case, where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect and neither the Guarantor nor any of its Subsidiaries have received any notice of proceedings relating to the revocation or modification or any such certificate, authorization or permit that, if determined adversely to the Guarantor or any of its Subsidiaries, could have a Material Adverse Effect.

Each of the Guarantor and its Subsidiaries (A) have good and marketable title to all items of real property owned by it and good and marketable title to all other property and assets owned by it, in each case free and clear of any security interests, liens, encumbrances, equities, claims and other defects that would affect the value thereof or interfere with the use made or proposed to be made thereof by it, and (B) holds any real property and buildings leased by that Guarantor and its subsidiaries under valid, subsisting and enforceable leases with no exceptions that would interfere with the use made or proposed to be made thereof by it, except, in each of the cases (A) and (B), where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect.

The Guarantor and each of its Subsidiaries owns or possesses all patents, patent applications, trademarks, service marks, trade names, licenses, copyrights and proprietary or other confidential information currently employed by it in connection with its businesses (collectively, “**intellectual property rights**”), except, in each case, where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect; and neither the Guarantor nor any of its Subsidiaries has received any notice of infringement of or conflict with asserted rights of others with respect to any intellectual property rights that, if determined adversely to the Guarantor or any of its Subsidiaries, could individually or in the aggregate have a Material Adverse Effect.

## 2.11 Adequate Insurance

The Guarantor and each of its Subsidiaries that are also Significant Subsidiaries have, where relevant, applied for insurance with insurer or insurers of sufficient standing against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged in the jurisdiction where they operate, respectively; that Guarantor and each of its Subsidiaries that are also Significant Subsidiaries have not been refused any insurance coverage sought or applied for; and that Guarantor and each of its Subsidiaries that are also Significant Subsidiaries have, where relevant, no reason to believe that they will not be able to obtain, within 60 days of the date hereof, such coverage as may be necessary to continue their business at a cost that would not have a Material Adverse Effect.

## 2.12 No Withholding or Similar Tax

Under current laws and regulations of Russia and Luxembourg and any respective political subdivisions thereof, and based upon the representations of the Lender set forth in Clause 4.6 (*Representations of the Lender*) of the Loan Agreement, all payments of principal and/or interest, Additional Amounts, Tax Indemnity Amounts or any other amounts payable on or in respect of this Guarantee may be paid by the Guarantor to the Lender in U.S. dollars and will not be subject to Taxes under laws and regulations of Russia, or any political subdivision or Taxing Authority thereof or therein, respectively, and will otherwise be free and clear of any other Tax, duty, withholding or deduction in Luxembourg, Russia, or any political subdivision or Taxing Authority thereof or

therein (provided, however, that the Guarantor makes no representation as to any income or similar Tax of Luxembourg (or any Qualifying Jurisdiction) which may be assessed thereon) and without the necessity of obtaining any governmental authorisation in Russia or any political subdivision or Taxing Authority thereof or therein.

**2.13 No Liquidation or Similar Proceedings**

No receiver or liquidator (or similar person) has been appointed in respect of the Guarantor or any Subsidiary of the Guarantor or in respect of any part of the assets of the Guarantor or any Subsidiary of the Guarantor; no resolution, order of any court, regulatory body, governmental body or otherwise, or petition or application for an order, has been passed, made or presented for the winding up of the Guarantor or any Subsidiary of the Guarantor or for the protection of the Guarantor or any such Subsidiary from its creditors; and that Guarantor has not, and no Subsidiary of the Guarantor has, stopped or suspended payments of its debts, become unable to pay its debts or otherwise become insolvent.

**2.14 Certificates**

Each certificate signed by any director or officer of the Guarantor and delivered to the Lender or counsel for the Lender on the date of granting this Guarantee shall be deemed to be a representation and warranty by the Guarantor to the Lender as to the matters covered thereby.

**2.15 *Pari Passu* Obligations**

The obligations of the Guarantor under this Guarantee will rank at least *pari passu* in right of payment with all other unsecured and unsubordinated obligations of that Guarantor, except as otherwise provided by mandatory provisions of applicable law.

**2.16 No Stamp Taxes**

Under the laws of Russia in force at the date hereof, it is not necessary that any stamp, registration or similar Tax be paid on or in relation to this Guarantee.

**2.17 Health, Safety and Environment**

Each of the Guarantor and its Subsidiaries is in compliance with all statutes, and all rules, regulations, requirements, decisions and orders of, and agreements with, any governmental agency or body and any court, relating to the protection of human health and safety (including occupational health and safety), the use, handling, transportation, disposal or release of hazardous or toxic substances, or the protection or restoration of the environment (collectively, “**hse laws**”), and has received, and is in compliance with all terms and conditions of, all permits, licenses or other approvals required of them under applicable hse laws in order to conduct their businesses, except, in each case, where the failure to be in compliance with or receive such permits, licenses or other approvals would not, individually or in the aggregate, have a Material Adverse Effect.

Neither the Guarantor nor any of its Subsidiaries is subject to any claims, costs or liabilities associated with any hse laws (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with hse laws or to acquire or comply with the terms and conditions of any permit, license or approval under any hse laws, any constraints on operating activities and any potential liabilities to third parties) which could, individually or in the aggregate, have a Material Adverse Effect; and, to the best of the Guarantor's knowledge, having made all due inquiries, there are no past or present events, conditions, circumstances, activities, practices, incidents or actions that would be reasonably likely to give rise to such costs, liabilities or claims.

**2.18 Events of Default**

No event has occurred or circumstances arisen which would (whether or not with the giving of notice and/or the passage of time) constitute an Event of Default in relation to the Guarantor or a default under any agreement or instrument evidencing any Indebtedness of the Guarantor.

**2.19 Repetition**

Each of the representations and warranties in Clause 2 (*Representations and Warranties of the Guarantor*) shall be deemed to be repeated by the Guarantor on the date of the granting of the Guarantee and, as long as the Guarantee in relation to the Guarantor has not been terminated, each of Clause 2.1 (*Due Organisation*) (solely with respect to the Guarantor and provided that, upon the occurrence of a merger or sale of assets pursuant to Clause 3.5 (*Mergers and Similar Transactions*), the Guarantor is the Surviving Entity), Clause 2.2 (*Authorisations*), Clause 2.3 (*No Conflict*) and Clause 2.8 (*Litigation and Contracts*) (solely with respect to any legal or governmental proceedings pending or, to the best knowledge of the Guarantor, threatened in writing delivered to the Guarantor before any court, tribunal, arbitration panel or Agency challenging the lawfulness, validity or enforceability of this Guarantee (except for any such proceedings as may have been disclosed in writing by that Guarantor to the Lender prior to the relevant date of repetition)) shall be deemed to be repeated and updated on each Interest Payment Date. The Guarantor shall inform the Lender in writing of any breach of prospective breach of such deemed repeated representations and warranties as soon as it becomes aware of the same. Each New Guarantor shall be deemed to make each of the above representations and warranties on the date on which it executes the Deed of Accession, with such modifications as are appropriate to take into account the jurisdiction in which such New Guarantor is incorporated or resident for tax purposes.

**3 Covenants of the Guarantor****3.1 Liens**

No Guarantor will and will not permit, any of its Subsidiaries to create, incur, assume or suffer to exist any Lien (other than Permitted Liens) on any asset now owned or hereafter acquired, or any income or profits therefrom, which secures any Indebtedness, unless this Guarantee and any other sum owing hereunder are secured by a Lien equally and rateably with the Liens securing such other Indebtedness; provided that if such Indebtedness is subordinated Indebtedness of that Guarantor, the Lien securing such Indebtedness shall be subordinate or junior to the Lien securing this Guarantee, with the same relative priority as such Indebtedness shall have with respect to this Guarantee.

**3.2 Stay, Extension and Usury Laws**

Each Guarantor covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Guarantee; and each Guarantor (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Lender (arid, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), but will suffer and permit the execution of every such power as though no such law had been enacted.

**3.3 Asset Sales**

No Guarantor will, or will permit any of its Subsidiaries to, consummate any Asset Sale, unless the proceeds received by that Guarantor or such Subsidiary, as the case may be, are at least equal to the Fair Market Value of the assets sold or disposed of (as determined in good faith by the Board of Directors of that Guarantor or the relevant Subsidiary) and an amount equal to such proceeds (less any costs plus reasonable expenses incurred in relation to such Asset Sale) is either (a) applied to

repay permanently any Indebtedness (other than subordinated Indebtedness) of the Borrower or any of its Subsidiaries or (b) invested in assets (including Capital Stock) of a nature or type that is used or usable in the business of the Borrower or any of its Subsidiaries being any food and beverage business that the Borrower or any such Subsidiary may conduct at the relevant time, in each case within 360 days of the date when such proceeds are received.

### 3.4 Transactions with Affiliates and Related Persons

- (a) Subject to sub-Clause 3.4(b) below, no Guarantor shall, or shall permit any of its Subsidiaries to, directly or indirectly, enter into, permit to exist, renew or extend any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of property or assets, or the rendering of any service) (each a “Transaction”) with, or for the benefit of, any Related Person of the relevant Guarantor (or any Affiliate of such Person) or with, or for the benefit of, any Affiliate of the relevant Guarantor, unless any such Transaction or series of related Transactions is made upon fair and reasonable terms no less favourable to that Guarantor or such Subsidiary, as the case may be, than could be obtained, at the time of such Transaction or, if such Transaction is pursuant to a written agreement, at the time of the execution of the agreement providing therefor, in a comparable arms<sup>2</sup>-length transaction with, or for the benefit of, a Person that is not a Related Person of the relevant Guarantor (or any Affiliate of such Person) or an Affiliate of the relevant Guarantor.

No such Transaction shall be consummated unless, in the case of a Transaction or series of related transactions involving aggregate consideration equal to or in excess of U.S.\$5 million, the relevant Guarantor or such Subsidiary, as the case may be, obtains the approval of its Board of Directors and

- (b) The limitation does in sub-Clause 3.4(a) above shall not limit, and shall not apply to any Transaction or series of related Transactions solely between the relevant Guarantor or any of its Subsidiaries or the Borrower and any of the Subsidiaries of the Borrower or solely between Subsidiaries of the relevant Guarantor.

### 3.5 Merger and Similar Transactions

- (a) Subject to sub-Clause 3.5(b) below, no Guarantor shall merge with or into or enter into a transaction whose effect would be similar to that of a merger (including, but not limited to, by way of an acquisition through a share-for-share exchange or contribution of assets) or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets (each a “merger”) to, any Person or permit any Person to merge with or into that Guarantor:
- (i) unless the Guarantor shall be the continuing Person, or the Person (if other than the Guarantor) into which such Guarantor is merged or that acquired or leased such property and assets of the relevant Guarantor (the “**Surviving Entity**”) shall be a company organised and validly existing under the laws of the Russian Federation, or any other jurisdiction the organisation of the Surviving Entity of which would not, at the time of the relevant transaction, cause the Surviving Entity to be required to provide payments of Additional Amounts or Tax Indemnity Amounts and shall expressly assume, by amendment hereto, executed and delivered by such Surviving Entity to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), in form and substance satisfactory to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), the due and punctual payment of amounts due on this Guarantee, and the due and punctual performance

and observance of all the covenants, conditions and other obligations of the Guarantor in respect of this Guarantee;

- (ii) unless, in the case of a sale, conveyance, transfer, lease or other disposal of all or substantially all of the Guarantor's property and assets, such property and assets shall have been transferred as an entirety or substantially an entirety in one transaction or a series of related transactions to one Person;
  - (iii) unless immediately before and after giving effect to such transaction or series of transactions on a pro forma basis (and treating any Indebtedness which becomes, or is anticipated to become, an obligation of the Surviving Entity as a result of such transaction or series of transactions as having been incurred by the Surviving Entity at the time of such transaction or series of transactions), no Default or Event of Default shall have occurred and be continuing;
  - (iv) unless immediately before and after giving effect to such transaction or series of transactions on a pro forma basis (and treating any Indebtedness which becomes, or is anticipated to become, an obligation of the Surviving Entity as a result of such transaction or series of transactions as having been incurred by the Surviving Entity at the time of such transaction or series of transactions) the Borrower, any Guarantor, or any Person becoming the successor obligor of the Loan or this Guarantee, as the case may be, would be able to incur an additional \$1.00 of Indebtedness pursuant to Clause 14.10 (Financial Covenant) of the Loan Agreement; and
  - (v) unless the Guarantor delivers to the Lender an opinion of counsel reasonably acceptable to the Lender, in form and substance satisfactory to the Lender (and, following the execution of any supplemental agreements entered into in connection with the agreed funding source, to the party designated by such agreements), stating that such merger or transfer and such supplemental agreement comply with this provision, that all legal conditions precedent provided for herein relating to such transaction have been complied with and that this Agreement and the Loan constitute legal, valid and binding obligations of the continuing Person, enforceable in accordance with their terms, subject, in the case of the opinion of counsel, to customary exceptions, qualifications and limitations.
- (b) The restrictions in sub-Clauses 3.5(a)(i), (iii) and (v) above shall not apply to any mergers between the Borrower and any of the Guarantors or Borrower's Subsidiaries or any of the or between two or more of the Guarantors or between any of the Guarantors and any of the Subsidiaries. The restrictions in sub-Clauses 3.5(a)(vi) and (vii) above shall not apply to any mergers between any of the Guarantors or any of the Subsidiaries or between two or more of the Guarantors or between any of the Guarantors and any of the Subsidiaries if (i) both relevant entities are incorporated in Russia, and (ii) both relevant entities have no business presence or tax residency outside Russia.

### 3.6 Maintenance of Authorisations

So long as any amount remains outstanding hereunder:

- (i) each Guarantor shall, and it shall procure that each of its Subsidiaries that are also Significant Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary, in the opinion of such Guarantor or the relevant Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property related to its business; and
- (ii) each Guarantor shall, and it shall procure that its Subsidiaries that are also Significant Subsidiaries shall, make or cause to be made all registrations, recordings and filings and shall obtain and maintain all consents, licences, approvals and authorisations, which may

at any time be required to be obtained or made in Russia or any other relevant jurisdiction for the purposes of the execution, delivery or performance of this Guarantee and for the validity and enforceability thereof;

provided that if the Guarantor or any such Significant Subsidiary can remedy any failure to comply with the above within 60 days of such failure, this covenant shall be deemed not to have been breached.

**3.7 Maintenance of Property**

So long as any amount remains outstanding hereunder, each Guarantor and its Subsidiaries that are also Significant Subsidiaries will cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipments and shall cause to be made all necessary repairs, renewals, replacements and improvements thereof, all as, in the judgments of that Guarantor or such Significant Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times.

**3.8 Payment of Taxes**

Each Guarantor shall, and shall cause each of its Subsidiaries to pay or discharge, before the same shall become overdue all Taxes, assessments and governmental levies, except (i) as contested in good faith and by appropriate proceedings and for which adequate reserves in accordance with appropriate accounting provisions have been made or (ii) the amount of which, together with all such other unpaid and undischarged Taxes, assessments and governmental levies does not in aggregate exceed U.S.\$1 million.

**3.9 Financial Covenant**

No Guarantor shall, or shall permit any of its Subsidiaries to, incur any Indebtedness, other than:

- (i) the Loan; and
- (ii) any Indebtedness in circumstances where: (1) no Event of Default shall have occurred and be continuing at the time or would occur as a consequence of the incurrence of such Indebtedness, and (2) after giving effect to the incurrence of such Indebtedness on a pro forma basis and the receipt and application of the proceeds therefrom, immediately after such incurrence the ratio of the consolidated Indebtedness of the Group to Consolidated EBITDA is 5:1 or lower.

**3.10 No Limitation on Dividend or Other Payments Affecting Subsidiaries**

- (a) Subject to sub-clause 3.9(b) below, no Guarantor shall or shall cause or permit any of its Subsidiaries to, directly or indirectly create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of itself or any Subsidiary to:
  - (i) pay dividends or make any other distributions on or in respect of its Capital Stock to the Borrower or such Guarantor or any Subsidiary of the Borrower or pay any Indebtedness owed to the Borrower or such Guarantor or any such Subsidiary;
  - (ii) make loans or advances to, or guarantee any Indebtedness or other obligations of the Borrower or such Guarantor, or
  - (iii) transfer any of its property or assets to the Borrower or such Guarantor or any of the Borrower's or such Guarantor's Subsidiaries.
- (b) The provisions of sub-Clause 3.9(a) above shall not restrict any encumbrance or restriction:
  - (i) arising solely by operation of law;

- (ii) existing under an agreement in effect on the date hereof; provided, however, that the terms, conditions and scope of any such encumbrance or restriction included in any such agreement may be amended only if:
  - (1) such amended encumbrance or restriction, when taken together with all the other encumbrances and restrictions in such agreement (as amended), will not be materially more restrictive or disadvantageous (A) to the agreed funding source or the Guarantor than the encumbrance or restriction being amended or (B) to the Guarantor than is customary in comparable transactions (in each case, as determined by the Guarantor); and
  - (2) the amended terms, conditions and scope of any such amended encumbrance or restriction, when taken together with the terms, conditions and scope of all the other encumbrances and restrictions in such agreement (as amended), will not materially adversely affect the Guarantor's ability to make payments on this Guarantee (as determined by the Guarantor); or
- (iii) contained in the terms of any Indebtedness incurred in compliance with Clause 14.10 (*Financial Covenant*) of the Loan Agreement or in any agreement pursuant to which such Indebtedness was issued, if:
  - (1) the encumbrances and restrictions in any such agreement, when taken as a whole, will not be materially more restrictive or disadvantageous to the Guarantor than is customary in comparable transactions (as determined by the Guarantor); and
  - (2) the terms, conditions and scope of any such encumbrances and restrictions in any such agreement, when taken as a whole, will not materially adversely affect the Guarantor's ability to make payments on this Guarantee (as determined by the Guarantor).

### 3.11 Insurance

Each of the Guarantors will obtain and maintain insurance with an insurer or insurers of sufficient standing against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged in the jurisdiction where they operate, respectively, at a cost that would not have a Material Adverse Effect; provided that if the relevant Guarantor can remedy any failure to comply with the above within 30 days, this covenant shall be deemed not to have been breached.

### 3.12 Financial Information

Each Guarantor will, at its own expense, so long the Loan remains outstanding, furnish to the Lender, copies of all reports and other communications (financial or other) furnished to stockholders of the Guarantor and furnish to the Lender, (i) as promptly as practicable, copies of any reports and financial statements furnished to or filed with any securities exchange (other than any securities exchange in Russia) on which any class of securities of the Guarantor is listed, if any; and (ii) such additional publicly available information concerning the business and financial condition of the Guarantor as the Lender may from time to time reasonably request. In addition, each Guarantor shall furnish to the Lender, such information as the Luxembourg Stock Exchange (or any other or further stock exchange or stock exchanges or any other relevant authority or authorities on which the instruments issued to the agreed funding source may, from time to time, be listed or admitted to trading) may require in connection with the listing or admittance to trading on such stock exchange or relevant authority of instruments issued to the agreed funding source. On the date of each anniversary of this Agreement and within 14 days of any request of the Lender, the Guarantor shall deliver to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements) an Officers'

Certificate stating that to the best of each of the Officers' knowledge (i) the Guarantor has kept, observed, performed and fulfilled each and every covenant, and complied with the covenants and conditions contained in this Agreement and (ii) the Guarantor is not in default in the performance or observance of any of the terms, provisions and conditions hereof and (iii) identifying, as at a date no more than 14 days before the date of such certificate, those subsidiaries which are Significant Subsidiaries.

The Guarantor will within 14 days of any reasonable request by the Lender provide the Lender with such further information other than information which the Guarantor determines in good faith to be confidential about the business and financial condition of the Guarantor and its Subsidiaries as the Lender may require (including information deliverable pursuant to Clause 13.1.5 of the Trust Deed).

## 4 Taxation

### 4.1 Additional Amounts

- (a) Subject to Clause 4.1(b), all payments made by each Guarantor under or with respect to this Guarantee will be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment, or other governmental charge (including penalties, interest and other liabilities related thereto) (collectively, "Taxes") imposed or levied by or on behalf of any government or political subdivision or territory or possession of any government or authority or Agency therein or thereof having the power to tax (each, a "Taxing Authority") within the jurisdiction in which the relevant Guarantor is resident for tax purposes or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), unless the relevant Guarantor is required to withhold or deduct Taxes by law or by the interpretation or administration thereof. For the avoidance of doubt, this Clause 4.1 shall not apply to any Taxes on income payable by the Lender.
- (b) If at any time a Guarantor is required to withhold or deduct any amount for or on account of Taxes imposed or levied by or on behalf of any Taxing Authority within the jurisdiction in which the relevant Guarantor is resident for tax purposes or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) from any payment made under or with respect to the Guarantee, that Guarantor, failing which the other Guarantors, shall, on the due date for such payment, pay such additional amounts ("Additional Amounts") as may be necessary so that the net amount received by the Lender (including Additional Amounts) in U.S. dollars after such withholding or deduction will not be less than the amount the Lender would have received if such Taxes had not been withheld or deducted and free from liability in respect of such withholding or deduction; provided, however, that for the avoidance of doubt, such Additional Amounts shall not be payable with respect to any Taxes on income payable by the Lender.
- (c) Each Guarantor will also:
  - (i) make such withholding or deduction; and
  - (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law.
- (d) If the Lender pays any amount in respect of such Taxes in respect of which Additional Amounts are payable (without prejudice to, and duplication of, the provisions of Clause 4.3 (*Tax Indemnity*)), each relevant Guarantor shall reimburse the Lender in U.S. dollars for such payment on demand.
- (e) Whenever this Guarantee mentions, in any context, the payment of amounts based upon the principal or premium, if any, interest or of any other amount payable under or with

respect to the Loan or the Guarantee, this includes, without duplication, payment of any Additional Amounts and Tax Indemnity Amounts that may be applicable.

The foregoing provisions shall apply, modified as necessary, to any Taxes imposed or levied by any Taxing Authority in any jurisdiction in which any Guarantor or any successor of the Borrower or of any Guarantor is organised.

#### 4.2 Payments

The Lender shall assist each Guarantor in ensuring that all payments made under this Guarantee are exempt from deduction or withholding of Tax.

#### 4.3 Tax Indemnity

Without prejudice to, and without duplication of, the provisions of Clause 4.1 (*Additional Amounts*):

- (a) if at any time the Lender makes or is required to make any payment to a Person (other than to or for the account of the agreed funding source) on account of Tax (other than Taxes on income payable by the Lender) in respect of this Guarantee or in respect of any instruments issued to, or documents entered into with, the agreed funding source imposed by any Taxing Authority of or in Russia, Luxembourg or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes, or any liability in respect of any such payment is asserted, imposed, levied or assessed against the Lender, each Guarantor shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender, indemnify the Lender against such payment or liability, together with any interest, penalties, costs and expenses payable or Incurred in connection therewith; and
- (b) if at any time a Taxing Authority imposes an obligation on the Lender to withhold or deduct any amount on any payment made or to be made by the Lender to or for the account of the agreed funding source and the Lender is required by any instruments issued to, or documents entered into with, the agreed funding source, to pay additional amounts to such agreed funding source in connection therewith, each Guarantor shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender, pay to the Lender such additional amounts as may be necessary so that the net amount received by the agreed funding source (including such additional amounts) in U.S. dollars after such withholding or deduction will not be less than the amount such agreed funding source would have received if such withholdings or deductions had not been made and free from liability in respect of such withholding or deduction.

Any payments required to be made by any Guarantor under this Clause 4.3 are collectively referred to as “**Tax Indemnity Amounts**”. For the avoidance of doubt, the provisions of this Clause 4.3 shall not apply to any withholding or deductions of Taxes with respect to this Guarantee which are subject to payment of Additional Amounts under Clause 4.1 (*Additional Amounts*).

#### 4.4 Tax Claims

If the Lender intends to make a claim for any Tax Indemnity Amounts pursuant to Clause 4.3 (*Tax Indemnity*), it shall notify each relevant Guarantor thereof; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organization of its affairs.

#### 4.5 Tax Credits and Tax Refunds

- (a) If any Additional Amounts are paid under Clause 4.1 (*Additional Amounts*) or Tax Indemnity Amounts are paid under Clause 4.3 (*Tax Indemnity*) by any Guarantor for the benefit of the Lender and the Lender, in its reasonable opinion, determines that it has

received or been granted a credit against, a relief or remission for, or a repayment of, any Tax, then, if and to the extent that the Lender, in its reasonable opinion, determines that such credit, relief, remission or repayment is in respect of or calculated with reference to the deduction or withholding giving rise to such Additional Amounts or, in the case of Tax Indemnity Amounts, with reference to the liability, expense or loss to which the payment giving rise to such Tax Indemnity Amounts relates, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to each relevant Guarantor such amount as the Lender shall, in its reasonable opinion, have concluded to be attributable to such deduction or withholding or, as the case may be, such liability, expense or loss; provided that the Lender shall not be obliged to make any payment under this Clause 4.5 in respect of such credit, relief, remission or repayment until the Lender is, in its reasonable opinion, satisfied that its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled. Any such payment shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or prepayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to each relevant Guarantor hereunder and shall be accepted by each relevant Guarantor in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding. Nothing contained in this Clause 4.5 shall interfere with the right of the Lender to arrange its tax affairs generally in whatever manner it thinks fit nor oblige the Lender to disclose any information relating to its tax affairs generally or any computations in respect thereof.

- (b) If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed by the jurisdiction in which the relevant Guarantor is resident for tax purposes or Luxembourg (or any Qualified Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) (i) such Tax is deducted or withheld by any Guarantor and pursuant to Clause 4.1 (Additional Amounts) an increased amount is paid by any relevant Guarantor to the Lender in respect of such deduction or withholding, and (ii) following the deduction or withholding of Tax as referred to above, (A) the relevant Guarantor applies on behalf of the Lender to the relevant Taxing Authorities for a tax refund and such tax refund is credited by the relevant Taxing Authorities to the Lender or (B) if such tax refund is otherwise credited by a relevant Taxing Authority to the Lender pursuant to a final decision of such Taxing Authority, the Lender shall as soon as reasonably possible notify such relevant Guarantor of the receipt of such tax refund and promptly transfer the entire amount of the tax refund to a bank account of each relevant Guarantor specified for that purpose by each relevant Guarantor.

#### **4.6 Representations of the Lender**

The Lender represents that (a) it is a bank which at the date hereof is a resident of Luxembourg, is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg; (b) it will account for the Loan on the date of closing on its balance sheet as an asset under “loans and advances to customers” and any arrangements with the agreed funding source as a liability under “liabilities evidenced by paper” and (c) at the date hereof, it does not have a permanent establishment in Russia.

The Lender shall make reasonable and timely efforts to assist each relevant Guarantor to obtain relief from the withholding of income tax in any jurisdiction in which the relevant Guarantor is resident for tax purposes pursuant to the double taxation treaty between the jurisdiction in which the relevant Guarantor is resident for tax purposes and the jurisdiction in which the Lender is incorporated, including its obligations under Clause 4.8 (*Delivery of Forms*). The Lender makes no representation as to the application or interpretation of any double taxation treaty between the

jurisdiction in which the relevant Guarantor is resident for tax purposes and the jurisdiction in which the Lender is incorporated.

#### **4.7 Exceptions**

The Lender agrees promptly, upon becoming aware of such, to notify each Guarantor if it ceases to be resident in Luxembourg or a Qualifying Jurisdiction or if any of the representations set forth in Clause 4.6 (*Representations of the Lender*) are no longer true and correct. If the Lender ceases to be resident in Luxembourg or a Qualifying Jurisdiction, then, except in circumstances where the Lender has ceased to be resident in Luxembourg or a Qualifying Jurisdiction by reason of any Change of Law (including a change in a double taxation treaty or in such law or treaty's application or interpretation), in each case taking effect after the date of this Guarantee, no Guarantor shall be liable to pay to the Lender under Clause 4.1 (*Additional Amounts*) or Clause 4.3 (*Tax Indemnity*) any sum in excess of the sum it would have been obliged to pay if the Lender had not ceased to be resident in Luxembourg or a Qualifying Jurisdiction.

#### **4.8 Delivery of Forms**

The Lender shall within 30 calendar days of the request of any Guarantor, to the extent it is able to do so under applicable law including the laws of the jurisdiction in which the relevant Guarantor is resident for tax purposes, deliver to that Guarantor a certificate issued by the competent Taxing Authority in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) confirming that the Lender is a tax resident in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and such other information or forms as the relevant Guarantor may need to be duly completed and delivered by the Lender to enable that Guarantor to apply to obtain relief from deduction or withholding of the relevant Tax after the date of this Guarantee or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of the relevant Tax has not been obtained. The Lender shall, within 30 calendar days of the request of any Guarantor, to the extent it is able to do so under applicable laws including the laws of the jurisdiction in which the relevant Guarantor is resident for tax purposes, from time to time deliver to that Guarantor any additional duly completed application forms as need to be duly completed and delivered by the Lender to enable that Guarantor to apply to obtain relief from deduction or withholding of the relevant Tax or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of the relevant Tax has not been obtained. The certificate and, if required, other forms referred to in this Clause 4.8 shall be duly signed by the Lender, if applicable, and stamped or otherwise approved by the competent Taxing Authority in Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and apostilled or otherwise legalised. If a relief from deduction or withholding of the relevant Tax under this Clause 8.8 has not been obtained and further to an application of that Guarantor to the relevant Taxing Authorities the latter requests the Lender's rouble bank account details, the Lender shall at the request of that Guarantor (x) use reasonable efforts to procure that such rouble bank account of the Lender is duly opened and maintained, and (y) thereafter furnish that Guarantor with the details of such rouble bank account. The relevant Guarantor shall pay for all costs associated, if any, with opening and maintaining such rouble bank account.

#### **4.9 Notification of Requirement to Deduct Tax**

If, at any time, a Guarantor is required by law to make any deduction or withholding from any sum payable by it hereunder, or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated, that Guarantor shall promptly notify the Lender.

#### 4.10 Evidence of Payment of Tax

Each relevant Guarantor will make all reasonable endeavours to obtain certified copies, and translations into English, of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Taxing Authority imposing such Taxes. That Guarantor will furnish to the Lender (and, following the execution of any other agreements entered into in connection with the agreed funding source, to the party designated by such agreements), within 60 calendar days after the date the payment of any Taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment by that Guarantor or, if such receipts are not obtainable, other evidence of such payments by that Guarantor.

### 5 Currency of Account and Payment

#### 5.1 Currency of Account

The U.S. dollar is the currency of account and payment for each and every sum at any time due from each Guarantor hereunder.

#### 5.2 Currency Indemnity

If any sum due from any Guarantor under this Guarantee or any order or judgment given or made in relation hereto has to be converted from the currency (the “**first currency**”) in which the same is payable hereunder or under such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against such Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation hereto, the relevant Guarantor shall indemnify and hold harmless the Lender from and against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Lender may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

### 6 Assignments and Transfers

#### 6.1 No Assignments and Transfers by the Guarantors

No Guarantor shall be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

#### 6.2 Assignments by the Lender

(a) Prior to an Event of Default, the Lender may (i) on or at any time after the date hereof assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder (save for (x) its rights to principal, interest and other amounts paid and payable under this Guarantee and (y) its right to receive amounts paid and payable under any claim, award or judgment relating to (his Guarantee in favour of the agreed funding source) to or on behalf of the agreed funding source and (ii) subject to the prior written consent of the Guarantors (such consent not to be unreasonably withheld or delayed) and except as may be otherwise specifically provided under the agreements entered into in connection with the agreed funding source, assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder to any company which, as a result of any amalgamation, merger or reconstruction or which, as a result of any agreement with the Lender, or any previous substitute, owns beneficially the whole or substantially the whole of the undertaking, property and assets owned by the Lender prior to such amalgamation, merger, reconstruction or agreement coming into force and where, in the case of any company which will own the whole or substantially the whole of the undertaking, property or assets of the Lender, the substitution of that company as

principal debtor in relation to the agreed funding source would not be materially prejudicial to the interests of the agreed funding source or the Guarantors. Any reference in this Guarantee to any such assignee or transferee pursuant to subclause (ii) of this Clause 6.2(a) shall be construed accordingly and, in particular, references to the rights, benefits and obligations hereunder of the Lender, following such assignment or transfer, shall be references to such rights, benefits or obligations by the assignee or transferee.

- (b) On or following an Event of Default, the Lender may, by notice to the Guarantors, assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder to the agreed funding source, or any assignee or transferee appointed in connection with the agreed funding source. Any reference in this agreement to any such assignee or transferee shall be construed accordingly and, in particular, references to the rights, benefits and obligations hereunder of the Lender, following such assignment or transfer, shall be references to such rights, benefits or obligations by the assignee or transferee appointed in connection with the agreed funding source.
- (c) Any reference in the Guarantee to any party shall be construed accordingly in relation to clause 6.2(a)(i) and Clause 6.2(b) and, in particular, references to the exercise of rights and discretions or the making of any determination by the Lender, shall include references to the exercise of such rights or discretions by or the making of such determination by the assignee or transferee appointed in connection with the agreed funding source (in its role as such). Notwithstanding the foregoing, the assignee or appointee shall not be entitled to participate in any determinations by the Lender or any discussions between the Lender and the Guarantor or any agreements of the Lender or Guarantor, pursuant to sub-Clauses 4.5 and 4.8.

## **7 Partial Invalidity**

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

## **8 Notices; Language**

### **8.1 Communications in Writing**

Each communication to be made hereunder shall be made in writing and, unless otherwise stated, shall be made by fax or letter

### **8.2 Delivery**

Any communication or document to be made or delivered by one person to another pursuant to this Agreement shall, unless that other person has by 15 calendar days' written notice to the same specified another address, be made or delivered to that other person at the address identified with its signature below and shall be effective or when left at that address (in the case of a letter) or when received by the addressee (in the case of a fax). Provided that any communication or document to be made or delivered by one party to the other party shall be effective only when received by such other party and then only if the same is expressly marked for the attention of the department or officer identified with the such other party's signature below, or such other department or officer as such other party shall from time to time specify for this purpose.

### **8.3 Language**

This Agreement shall be signed in English. Each communication and document made or delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied

by a translation thereof into English certified by an officer of the person making or delivering the same as being a true and accurate translation thereof.

## **9 Governing Law and Jurisdiction**

### **9.1 English Law**

This Guarantee is governed by, and shall be construed in accordance with, English law.

### **9.2 English Courts**

Each Guarantor irrevocably agrees that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which arise out of or in connection with this Guarantee (“**Proceedings**”) and, for such purposes, irrevocably submit to the jurisdiction of such courts.

### **9.3 Appropriate Forum**

Each Guarantor irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes (as defined below), and agrees not to claim that any such court is not a convenient or appropriate forum

### **9.4 Service of Process**

Each Guarantor agrees that the process by which any Proceedings in England are begun may be served on them by being delivered to Law Debenture Corporate Services Limited, or their registered offices for the time being. If any Person mentioned in this Clause is not or ceases to be effectively appointed to accept service of process on any Guarantor’s behalf, the relevant Guarantor shall immediately appoint a further Person in England to accept service of process on its behalf. Nothing in this Clause shall affect the right of either party hereto to serve process in any other manner permitted by law.

### **9.5 Non-exclusivity**

The submission to the jurisdiction of the English courts in accordance with Clause 9.2 (*English Courts*) hereof shall not, and shall not be construed so as to, limit the right of any party hereto to take Proceedings in any other court of competent jurisdiction.

### **9.6 Consent to Enforcement, etc.**

Each Guarantor consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including, without limitation, the making, enforcement or execution against any property whatsoever, irrespective of its use or intended use, of any order or judgement which is made or given in such Proceedings.

### **9.7 Arbitration**

If any dispute or difference of whatever nature howsoever arises from or in connection with this Guarantee, or any supplement, modifications or additions thereto, (each a “**Dispute**”), the Lender may elect, by notice to each Guarantor, to settle such claim by arbitration in accordance with the following provisions. Each Guarantor hereby agrees that (regardless of the nature of the Dispute) any Dispute may be settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the “**Rules**”) as at present in force by a panel of three arbitrators appointed in accordance with the Rules. The seat of any reference to arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The language of any arbitral proceedings shall be

English. The appointing authority for the purposes set forth in Articles 7(2) and 7(3) of the Rules shall be the London Court of International Arbitration.

**9.8 Contracts (Rights of Third Parties) Act 1999**

A person who is not a party to this Guarantee has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Guarantee, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

---

## The Bank

*The information set out below has been accurately reproduced from, or is a summary of, publicly available information. The Borrower accepts responsibility for the accurate reproduction or, as the case may be, summary of such information but does not accept any responsibility for the accuracy or completeness of such information.*

UBS (Luxembourg) S.A. is incorporated in Luxembourg as a *société anonyme* with an unlimited duration and is registered under RCS Luxembourg no. B11.142.

The Bank was established in Luxembourg as a *société anonyme* under the name of Union de Banques Suisses (Luxembourg) S.A. on 27 September 1973 when it obtained its Luxembourg banking licence. Following the merger by absorption on 29 May 1998, between Union de Banques Suisses (Luxembourg) S.A. and Swiss Bank Corporation (Luxembourg) S.A., the merged entity changed its name to UBS (Luxembourg) S.A. In 2002, UBS (Luxembourg) S.A. opened a subsidiary in Brussels named UBS Belgium S.A./N.V. On 31 August 2002, UBS (Luxembourg) S.A. absorbed Banque Ferrier Lullin (Luxembourg) S.A. In May 2003, a branch was established in Vienna and the acquisition of selected assets of American Express private banking section followed in 2004. UBS (Luxembourg) S.A. – Dublin Branch was opened on 5 December 2005.

The Bank's Articles of Incorporation, which have been amended several times since first published, were last amended on 29 May 1998 (and published in the *Mémorial* on 27 June 1998). Copies of the Articles of Incorporation of the Bank may be inspected or obtained at the Company Registrar in Luxembourg.

The issued and paid up capital of the Bank is CHF 150,000,000 divided into 150,000 shares. On 31 December 2005, the reserves of the Bank amounted to CHF 167,640,000 of which CHF 152,640,000 were free reserves. The Bank is supervised and regulated by the *Commission de Surveillance du Secteur Financier*. The share capital of the Bank is owned by UBS AG, Zurich, a corporation incorporated in Switzerland. The Bank is engaged in various commercial, corporate and private banking activities in Luxembourg.

The Board of Directors of the Bank are Arthur Decurtins (Chairman), Alfred Zbinden, Peter Faes, Hans Karl Held, Andreas Przweloka and Roger Hartmann. The members of the Executive Board of the Bank are Roger Hartmann (Managing Director), Stephanie König, Christop Haelg, Marcel Bruehwiler, Viviane De Angelis, René Egger, Ralf Schroeter, Jürgen Gerber, Hermann Kronz and Alain Hondequin.

Since the Bank's sole obligation in respect of the Notes is to make payments of amounts equal to and in the same currency as principal, interest, Additional Amounts (if any) and Tax Indemnity Amounts (if any) actually received from the Borrower pursuant to the provisions of the Loan Agreement (less amounts in respect of Reserved Rights), financial information relating to the Bank is not set out in this Offering Memorandum.

The financial statements of the Bank for the years ended 31 December 2004 and 2005 have been audited by Ernst & Young S.A., L-2017 Luxembourg. The financial statements of the Bank for the year ended 31 December 2006 have not yet been published.

---

## Subscription and Sale

The Manager has agreed, subject to the satisfaction of the terms and conditions of a Subscription Agreement dated 6 February 2007, by and among the Bank, the Borrower and the Managers, to subscribe and pay for the Notes at the issue price of 100 per cent. of the principal amount of Notes. The Manager is entitled to be released and discharged from its obligations under the Subscription Agreement in certain circumstances prior to the closing of the issue of the Notes.

The Subscription Agreement provides that the obligation of the Manager to purchase the Notes is subject to the satisfaction of conditions, including, among other things, the delivery of legal opinions by legal counsel and tax opinions from tax advisors. In connection with this offering, the Borrower has agreed to pay a combined management, underwriting and selling commission of 0.75 per cent. of the aggregate principal amount of the Notes to the Manager and to reimburse certain of its expenses relating to this offering.

The Borrower has been advised by the Manager that the Manager proposes to offer and sell the Notes outside the United States, to persons other than U.S. persons, within the meaning of Regulation S under the U.S. Securities Act, in reliance on Regulation S under the U.S. Securities Act and in accordance with applicable law.

The price at which the Notes are being sold may be changed at any time without notice. Terms used above have the meanings assigned to them in Regulation S under the U.S. Securities Act.

The Notes will constitute a new class of securities with no established trading market. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade the Notes on the Euro MTF market of the Luxembourg Stock Exchange. However, the Borrower cannot assure you that an active public or other market will develop for the Notes or that a liquid trading market will exist for the Notes. The Borrower has agreed and the Bank has separately agreed to indemnify the Manager against certain liabilities incurred in connection with the issue of the Notes.

The Manager has, directly and indirectly, provided investment and commercial or financial advisory services to the Borrower, for which it has received customary fees and commissions and expect to provide these services to the Borrower in the future, for which each expects to receive customary fees and commissions.

### **Selling Restrictions**

#### **United States**

The Manager has acknowledged and agreed that in connection with the sale of the Notes made in reliance on Regulation S, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes within the United States or to, or for the account or benefit of, U.S. persons:

- as part of their distribution at any time; or
- otherwise, until 40 days after the later of the date of the commencement of the offering and the closing of the offering of the Notes, and that they will send to each distributor, dealer or other person receiving a selling concession, fee or other remuneration to which they sell Notes in reliance on Regulation S during the 40-day distribution compliance period, a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

The Notes have not been and will not be registered under the U.S. Securities Act and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to the requirements of, the U.S. Securities Act.

### United Kingdom

The Manager has further represented and agreed that:

- it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the “FSMA”) with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and
- it has only communicated or caused to be communicated and it will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Borrower or the Bank.

### Russian Federation

The Manager has represented, warranted and agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer any Notes as part of their initial distribution to or for the benefit of any persons (including legal entities) that are resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation, except in compliance with Russian law.

### Republic of Italy

The Manager has represented that it will not offer, sell or deliver any Notes or distribute copies of this Offering Memorandum or any other document relating to the Notes in the Republic of Italy other than to professional investors (*operatori qualificati*), as defined in Article 31, paragraph 2 of CONSOB Regulation No. 11522 of 1 July 1998 (“Regulation No. 11522”), as recently amended, pursuant to Article 30, paragraph 2, and Article 100 of the Italian Financial Act (Legislative Decree No. 58 of 24 February 1998) (“Decree No. 58”) and in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations, provided, however, that any such offer, sale or delivery of the Notes or distribution of copies of this Offering Memorandum or any other document relating to the Notes in the Republic of Italy must be:

- made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No 385 of 1 September 1993 (“Decree No. 385”), Decree No. 58, Regulation No. 11522, as amended, and any other applicable laws and regulations;
- in compliance with Article 129 of Decree No. 385 and the implementing instructions of the Bank of Italy, pursuant to which the issue or the offer of securities in Italy has been preceded and will be followed by an appropriate notice to be filed with the Bank of Italy; and
- in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

The Notes may not be placed, sold or offered to individuals resident in Italy neither in the primary nor in the secondary market.

### Luxembourg

The Manager has represented, warranted and agreed that the Notes have not been offered or sold, and will not be offered or sold, in Luxembourg, except in circumstances that do not constitute a public offering or distribution under applicable Luxembourg laws and regulations. The Notes have not been and will not be authorised for public offering in Luxembourg and may not be offered or sold in Luxembourg in circumstances that would constitute a public offer unless the requirements of the Luxembourg law concerning public offers have been complied with.

### General

Each of the Bank and the Manager has represented, warranted and agreed that, to the best of its knowledge and belief, it has not taken, and will not take, any action in any jurisdiction that would, or is intended to, permit a public offer of the Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Accordingly, the Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering memorandum, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations and all offers and sales of the Notes by it will be made on the same terms.

---

## Taxation

The following is a general description of certain tax laws relating to the Notes and does not purport to be a comprehensive discussion of the tax treatment of the Notes. You should consult your own tax adviser as to the tax consequences of the purchase, ownership and disposition of the Notes in light of your particular circumstances, including but not limited to, the consequences of receipt of interest and sale and redemption of the Notes.

### Luxembourg

The following general summary is based upon the tax laws of Luxembourg as in effect on the date of this Offering Memorandum and is subject to any change that may come into effect after that date.

Under the existing laws of Luxembourg:

- (a) All payments of interest and principal by the Bank under the Notes can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with applicable Luxembourg law, subject however to the following exceptions:
  - (i) Application of the Luxembourg law of 21 June 2005 implementing the European Union Savings Directive (see the section of this prospectus below entitled “—European Union Directive on the Taxation of Savings Income”, which may be applicable in the event of the Bank appointing a paying agent in Luxembourg within the meaning of the above-mentioned directive);
  - (ii) Application of the 10.0 per cent. withholding tax in full discharge of income tax on interest derived from certain transferable securities and paid to Luxembourg resident individuals through a paying agent located in Luxembourg. Taxpayers who hold the securities as private wealth will no longer need to declare these interest payments in their tax returns as the 10.0 per cent. withholding tax is a final taxation;
- (b) A Noteholder who derives income from a Note or who realises a gain on the disposal or redemption of a Note will not be subject to Luxembourg taxation on income or capital gains unless:
  - (i) the Noteholder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
  - (ii) such income or gain is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg;
- (c) Luxembourg net wealth tax will not be levied on a holder of the Notes, unless such Notes are:
  - held by a Luxembourg resident company except if the holder of Notes is governed by any of the following: (i) the law of 31 July 1929 on pure holding companies; (ii) the laws of 30 March 1988, 19 July 1991 or 20 December 2002 on undertakings for collective investment; (iii) the law of 22 March 2004 on securitisation; or (iv) the law of 15 June 2004 on the investment company in risk capital; or
  - attributable to a business enterprise or part thereof, which is carried on in Luxembourg or through a permanent establishment or a permanent representative of a non-resident company in Luxembourg;
- (d) Luxembourg inheritance taxes will only be levied on the transfer of a Note on the death of the Noteholder if the deceased Noteholder was resident in Luxembourg;
- (e) Luxembourg gift tax will be levied on the transfer of a Note by way of gift by the Noteholder if this gift is registered in Luxembourg;

- (f) There is no Luxembourg registration tax, capital tax, stamp duty or any other similar tax or duty payable in Luxembourg in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Notes or the performance of the Bank's obligations under the Notes, except that in the case of court proceedings in a Luxembourg court or the presentation of the documents relating to the Notes, other than the Notes, to an "*autorité constituée*", such court or "*autorité constituée*" may require registration thereof, in which case the documents will be subject to registration duties depending on the nature of the documents and, in particular, a loan agreement, not represented by the Notes, will be subject to an *ad valorem* registration duty of 0.24 per cent. calculated on the amounts mentioned therein;
- (g) There is no Luxembourg value added tax payable in respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes, provided that Luxembourg value added tax may, however, be charged or due by the Bank using the reverse charge mechanism in respect of fees charged for certain services rendered to the Bank, if for Luxembourg value added tax purposes such services are rendered, or are deemed to be rendered, in Luxembourg and an exemption from value added tax does not apply with respect to such services; and
- (h) A Noteholder will not become resident, or deemed to be resident, in Luxembourg by reason only of the holder of a Note or the execution, performance, delivery and/or enforcement of the Note.

### European Union Directive on the Taxation of Savings Income

The Council of the European Union has adopted Council Directive 2003/48/EC regarding the taxation of savings income in the form of interest payments. The Directive became effective on 1 July 2005. The terms below ("paying agent", "third party", "residual entity", "transitional period") should be understood in reference to the above mentioned Directive.

The Directive provides that certain interest payments and investment fund distributions/ redemptions made by a paying agent situated within a European Union member state, within an associated or dependent territory or a third country to an individual beneficial owner or certain entities resident in another EU member state or associated or dependent territory will either have to be reported to the tax authorities of the country of establishment of the paying agent or will be subject to a withholding tax depending on the location of the paying agent.

For most of the European Union countries (and some dependent territories and third countries), the paying agent will have to forward this information to the tax authorities of its country of establishment. The tax authorities will then forward the information to the country of residence of the individual or residual entity. For a transitional period, Luxembourg, Austria and Belgium will be applying a withholding tax. The applicable withholding tax rate will be 15.0 per cent. for the first three years of application. This rate will be increased gradually to 20.0 per cent. then 35.0 per cent. in 2011 and will apply until the end of the transitional period.

However, the Savings Directive further prescribes that an individual subject to the withholding regime set by Austria, Belgium or Luxembourg should have the right to elect that the exchange of information regime be applied instead.

### Russian Federation

#### General

The following general summary of the principal Russian tax consequences relevant to purchase, ownership, and disposal of the Notes and the payment of interest pursuant to the Notes is based upon the tax laws of the Russian Federation as in effect on the date of this Offering Memorandum. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia, nor does the summary seek to address the availability of double tax treaty

relief in respect of the Notes, or practical difficulties involved in obtaining such double tax treaty relief. Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Notes in their own particular circumstances. No representation with respect to the Russian tax consequences to any particular Noteholder is made hereby.

Many aspects of Russian tax law are subject to uncertainty. Moreover, the provisions of the Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change than in jurisdictions with more developed financial markets or more developed taxation systems.

For the purposes of this summary, a “Non-Resident Noteholder” means:

- (i) an individual Noteholder who is present in Russia for an aggregate period of less than 183 days (excluding days of arrival into Russia but including days of departure from Russia) in any period comprised of 12 consecutive months (“Non-Resident Noteholder-Individual”). Presence in Russia for tax residency purposes is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education; or
- (ii) a legal entity or an organisation, in each case not organised under Russian law, which holds and disposes of the Notes otherwise than through a permanent establishment in Russia (“Non-Resident Noteholder-Legal Entity”).

A “Resident Noteholder” means any Noteholder (including any individual and any legal entity) not qualifying as a Non-Resident Noteholder.

Tax residency rules may be affected by an applicable double tax treaty.

### **Taxation of the Notes**

#### *Resident Noteholders*

Resident Noteholders will be subject to all normally applicable Russian taxes in respect of gains from redemption, sale or other disposal of the Notes.

#### **Non-Resident Noteholders**

A Non-Resident Noteholder should not be subject to any Russian taxes in respect of payments of interest and principal on the Notes received from the Issuer.

Generally a Non-Resident Noteholder should also not be subject to any Russian taxes in respect of any gain or other income realised on redemption, sale or other disposition of the Notes outside Russia, provided that the proceeds of such disposition are not received from a source within Russia.

In the event that proceeds from a disposition of Notes are received from a source within Russia, a Non-Resident Noteholder-Legal Entity should not be subject to Russian tax on any gain on sale or other disposition of the Notes, although there is some residual uncertainty regarding the treatment of the portion of the proceeds, if any, from disposition of the Notes that is attributable to accrued interest on the Notes. Subject to reduction or elimination under provisions of an applicable double tax treaty that are related to interest income, proceeds attributable to accrued interest may be taxed at a rate of 20 per cent., even if the disposal results in a capital loss.

Subject to any available tax treaty relief, the receipt of proceeds by a Non-Resident Noteholder-Individual from a source within Russia in respect of the gain from a disposition of the Notes is likely to be treated as Russian-source income for personal income tax purposes and, as such, will be subject to Russian personal income tax at a rate of 30 per cent. on the gross proceeds received less any available cost deduction (including the original acquisition value). In certain circumstances if the disposal proceeds are paid by a licensed broker or an asset manager that is a Russian legal entity, or any other person, including a foreign organisation with a permanent establishment or arguably any registered presence in Russia and an individual entrepreneur located in Russia, who carry out operations under an agency agreement, a commission agreement or another similar agreement for the benefit of the Non-Resident Noteholder-

Individual, the applicable personal income tax at the rate of 30 per cent. should be withheld at source. The amount of tax withheld will be calculated after taking into account deductions for the acquisition value and related expenses to the extent that these can be determined by the person paying out the income. When a sale is made to other persons, generally no withholding of tax needs to be made and the Non-Resident Noteholder-Individual would be liable to file a tax return where it would report income realised and apply for a deduction of documented acquisition expenses. The applicable tax would then have to be paid by the Non-Resident Noteholder-Individual on the basis of the tax return. There is some uncertainty regarding the treatment of the portion of the proceeds, if any, from a disposition of the Notes that is attributable to accrued interest on the Notes. Subject to reduction or elimination under provisions of an applicable tax treaty, proceeds attributable to accrued interest may be taxed at a rate of 30 per cent., even if the disposal results in a capital loss.

There is also a risk that any gain may be affected by changes in the exchange rate between the currency of acquisition of the Notes, the currency of disposition and roubles.

### Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These tax treaties may contain provisions that reduce or eliminate Russian tax due with respect to income received from a source within Russia by a Non-Resident Noteholder. To obtain the benefit of such tax treaty provisions, the Non-Resident Noteholder must comply with the certification, information, and reporting requirements in force in Russia. Currently a Non-Resident Noteholder would need to provide the payer of income with a certificate of tax residence issued by the competent tax authority of the relevant treaty country. In addition, a Non-Resident Noteholder-Individual must provide the tax authorities with appropriate documentary proof of income received and the tax payment made outside Russia on income with respect to which treaty benefits are claimed. Because of uncertainties regarding the form and procedures for providing such documentary proof, Non-Resident Noteholder-Individuals in practice would not be able to obtain advance treaty relief on receipt of proceeds from a source within Russia, while obtaining a refund of the taxes withheld can be extremely difficult, if not impossible.

### Taxation of Interest on the Loan

Interest paid by a Russian entity to a foreign entity is subject to Russian withholding tax at the rate of 20 per cent. Pursuant to the provisions of an applicable double taxation treaty the withholding tax may be reduced or eliminated, provided that the relevant administrative procedures are complied with. We believe that the payments of interest on the loan will not be subject to Russian withholding tax under the terms of the double taxation treaty between the Russian Federation and Luxembourg. However, there can be no assurance that such exemption from withholding tax under the treaty will be obtained.

For treaty relief from Russian withholding tax, preliminary approval from the Russian tax authorities is neither required nor possible. However, the Russian tax authorities may subsequently scrutinize the Issuer's eligibility for treaty relief during tax audits.

In addition, if interest under the Loan becomes payable to the Trustee pursuant to the Trust Deed, any benefit of the double tax treaty between Russia and Luxembourg will cease and payments of interest may be subject to Russian withholding tax at a rate of 20 per cent. In such cases, Noteholders may seek elimination or reduction of withholding tax under applicable double taxation treaties entered into between their countries of tax residence and Russia. There is no assurance that treaty relief will be available.

If the payments under the Loan are subject to any withholding tax, we are obliged to increase payments as may be necessary so that the net payments received by the Bank will not be less than the amount it would have received in the absence of such withholding. There is a risk that tax gross-up provisions in the contract may not be enforceable under Russian law. In the event that we fail to make increased payments, such failure would constitute an Event of Default pursuant to the Loan Agreement. If we are obliged to increase payments, we may (without premium or penalty), subject to certain conditions, prepay such Loan in full.

---

In such case, all outstanding Notes would be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of redemption.

No Russian value added tax, or VAT, should be payable in Russia on interest or principal of the Loan.

---

## Independent Registered Public Accounting Firm

Our consolidated financial statements prepared in accordance with U.S. GAAP as of and for the years ended 31 December 2003, 2004, 2005 included in this offering memorandum have been audited by Ernst & Young LLC, independent registered public accounting firm, who have expressed an unqualified opinion on those statements, as stated in their report enclosed herein.

Our condensed consolidated financial statements prepared in accordance with U.S. GAAP as of and for the nine months ended 30 September 2006 also included in this offering memorandum have been reviewed by Ernst & Young LLC. A review of interim financial information is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, Ernst & Young LLC did not express such an opinion, and condensed consolidated financial statements prepared in accordance with U.S. GAAP as of and for the nine months ended 30 September 2006 are unaudited.

---

## General Information

1. It is expected that the Notes will be admitted, subject only to the issue of the Global Note Certificates, to the Official List of the Luxembourg Stock Exchange on or about 8 February 2007. Application has been made for the Notes to be traded on the Euro MTF market of the Luxembourg Stock Exchange.
2. Copies of the following documents (together with English translations thereof) will be available for inspection during normal business hours on any weekday, at our principal offices as well as the registered offices of the Luxembourg Paying and Transfer Agent for so long as the Notes are admitted to the Official List of the Luxembourg Stock Exchange:
  - the charter of the Borrower;
  - the Trust Deed (including the form of the Global Note Certificate and the individual Note Certificates);
  - the Agency Agreement; and
  - the Loan Agreement,

copies of the accounts for the last two fiscal years, the future accounts and the statutory accounts and interim financial statements, if any, of the Borrower together with the auditors' reports relating thereto and copies of the Borrower's form 20-F filing with the US Securities and Exchange Commission in respect of the year ended 31 December 2005 are obtainable from our principal offices as well as the registered offices of the Luxembourg Paying and Transfer Agent for so long as the Notes are admitted to the Official List of the Luxembourg Stock Exchange.

The Borrower only prepares consolidated financial statements in accordance with U.S. GAAP on a quarterly, semi-annual and annual basis. Only the annual consolidated financial statements are audited.

3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code for the Notes is 028661681 and the ISIN for the Notes is XS0286616817.
4. Except as disclosed under "Risk Factors—Failure of several of our brand names and images, for which trademarks are currently being sought, to be awarded trademark protection could negatively affect our marketing plans, resulting in increased advertising expenses and a material adverse affect on our financial results", neither the Borrower nor any of its subsidiaries is or has been involved in any legal or arbitration proceedings during the 12 months preceding the date of this Offering Memorandum, that are material in the context of the issue of Notes nor is the Borrower aware that any such proceedings are pending or threatened.
5. Except as otherwise disclosed in this Offering Memorandum, since 31 December 2005 there has been no significant change in the financial or trading position of the Borrower or the Group and, since 31 December 2005, there has been no material adverse change in the prospects of the Borrower or the Group.
6. The Loan Agreement has been approved in accordance with the charter of the Borrower and the laws of the Russian Federation by a resolution of the Board of Directors of the Borrower on 18 December 2007.
7. For the year ended 31 December 2005, the following four subsidiaries contributed 10 per cent. or more of the consolidated net profits or losses of our group:

Wimm-Bill-Dann OJSC (formerly Lanozovo Dairy Plant OJSC) was incorporated as a joint stock company in the Russian Federation under Russian legislation on 4 March 1993 with registered number 012.532 (OGRN 1027739768924). The object of Wimm-Bill-Dann is dairy production. Its registered office is located at 108 Dmitrovskoe shosse, 127591, Moscow, Russian Federation. As at 31 December 2006, its issued, paid up and outstanding share capital was 207142 shares of 1 (one)

---

rouble each. The directors of Wimm-Bill-Dann are Bolotovskiy R.V., Davidovskiy O.L., Plastinin S.A., Skopinov V.G., Filatov V.S., Usikova L.S., Iakobachvili D. We hold 98.68 per cent. of the stock capital of Wimm-Bill-Dann.

Tsaritsyno Dairy was incorporated as a joint stock company in the Russian Federation under Russian legislation on 27 May 1993 with registered number 012.533 (OGRN 1027739768990). The object of Tsaritsyno Dairy is dairy production. Its registered office is located at 6, 1st Warshavskiy proezd, 115201, Moscow, Russian Federation. As at 31 December 2006, its issued, paid up and outstanding share capital was 84,155 shares of 1 (one) rouble each. The directors of Tsaritsyno Dairy are Andreev Y. M., Vlasenko Y.A., Plastinin S.A., Evdokimov V.E., Kuzmin O.E., Iakobachvili D. We hold indirectly 98.91 per cent. of the stock capital of Tsaritsyno Dairy.

Baby Foods Dairy was incorporated as a joint stock company in the Russian Federation under Russian legislation on 23 May 1994 with registered number 014.296 (OGRN 1027739769111). The object of Baby Foods Dairy is baby foods and dairy production. Its registered office is located at 108-A, Dmitrovskoe shosse, 127591, Moscow, Russian Federation. As at 31 December 2006, its issued, paid up and outstanding share capital was 18,589 shares of 1 (one) rouble each. The directors of Baby Foods Dairy are Gajev A.I., Kosulnikova R.A., Orlov A.S., Tsarapkin C.F., Yudkin S.I., Iakobachvili D., Ryazantsev A.O. We hold indirectly 96.15 per cent. of the stock capital of Baby Foods Dairy.

Valdai's springs Ltd. was incorporated as a limited liability company in the Russian Federation under Russian legislation on 30 August 2002 with registered number OGRN 1025301587585. The object of Valdai's springs Ltd. is the production of mineral and drinking water. Its registered office is located at 174350, Novgorod region, Okulovsky district, Russian Federation. As at 31 December 2006, its issued, paid up and outstanding share capital was 10,000 shares. Valdai's springs Ltd. does not have a board of directors. Valdai's springs Ltd. is our wholly-owned subsidiary.

---

# Index to Financial Statements

	Page
<b>OF THE BORROWER</b>	
REPORT OF AN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM IN RESPECT OF THE CONDENSED CONSOLIDATED STATEMENTS AS AT 30 SEPTEMBER 2006 AND 30 SEPTEMBER 2005 .....	F-2
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 SEPTEMBER 2006 AND 30 SEPTEMBER 2005 .....	F-3
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 SEPTEMBER 2006 AND 30 SEPTEMBER 2005 .....	F-9
REPORT OF AN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003 .....	F-17
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003 .....	F-18
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003 .....	F-24

---

# Report of Independent Registered Public Accounting Firm

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

We have reviewed the condensed consolidated balance sheet of Wimm-Bill-Dann Foods, a Russian Open Joint Stock Company, as of 30 September 2006, and the related condensed consolidated statements of operations and comprehensive income, condensed consolidated statements of cash flows and condensed consolidated statements of shareholders' equity for the nine-month periods ended 30 September 2006 and 2005. These financial statements are the responsibility of Wimm-Bill-Dann Foods' management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of 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 condensed consolidated interim financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Wimm-Bill-Dann Foods as of 31 December 2005, and the related consolidated statements of operations and comprehensive income, cash flows and shareholders' equity for the year then ended not presented herein, and in our report dated 21 March 2006, 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 31 December 2005, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/S/ ERNST & YOUNG LLC

Moscow, Russia

8 December 2006, except for the third paragraph of Note 10 as to which the date is 22 December 2006.

**Wimm-Bill-Dann Foods**  
**Condensed Consolidated Balance Sheets**  
**Nine months ended 30 September 2006**  
**(Amounts in thousands of U.S. dollars)**

**Assets**

	<b>30 September 2006 (unaudited)</b>	<b>31 December 2005 (audited)</b>
<b>Current assets</b>		
Cash and cash equivalents.....	\$66,546	\$93,103
Short-term bank deposits.....	30,619	32,164
Trade receivables, net .....	76,749	59,968
Inventory .....	181,080	130,597
Taxes receivable.....	53,479	61,480
Advances paid .....	27,547	9,715
Net investment in direct financing leases.....	2,139	2,335
Deferred tax asset .....	12,005	8,750
Other current assets.....	19,157	8,915
	469,321	407,027
<b>Non-current assets</b>		
Property, plant and equipment, net .....	497,143	459,527
Intangible assets .....	8,587	7,078
Goodwill .....	35,418	32,008
Net investment in direct financing leases — long-term portion .....	1,928	3,072
Long-term investments .....	12	138
Deferred tax asset — long-term portion .....	8,946	5,554
Other non-current assets .....	6,064	6,153
	558,098	513,530
<b>Total non-current assets .....</b>	<b>558,098</b>	<b>513,530</b>
<b>Total assets .....</b>	<b>\$1,027,419</b>	<b>\$920,557</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Wimm-Bill-Dann Foods**  
**Condensed Consolidated Balance Sheets**  
**Nine months ended 30 September 2006**  
**(Amounts in thousands of U.S. dollars)**

**Liabilities and Shareholders' Equity**

	30 September 2006 (unaudited)	31 December 2005 (audited)
<b>Current liabilities</b>		
Trade accounts payable .....	\$95,673	\$65,780
Advances received .....	7,063	5,291
Short-term loans .....	40,855	19,554
Long-term loans — current portion.....	2,827	3,823
Long-term notes payable — current portion .....	—	49,794
Taxes payable .....	14,863	13,406
Accrued liabilities .....	35,210	17,071
Government grants — current portion .....	1,768	2,174
Other payables .....	33,936	30,200
Total current liabilities.....	232,195	207,093
<b>Long-term liabilities</b>		
Long-term loans .....	21,642	1,824
Long-term notes payable .....	247,087	254,230
Other long-term payables .....	18,285	26,893
Government grants — long-term portion .....	1,521	3,219
Deferred taxes — long-term portion .....	17,134	15,636
Total long-term liabilities.....	305,669	301,802
<b>Total liabilities.....</b>	<b>537,864</b>	<b>508,895</b>
<b>Minority interest .....</b>	<b>16,516</b>	<b>24,619</b>
<b>Shareholders' equity</b>		
Common stock: 44,000,000 shares authorised, issued and outstanding with a par value of 20 Russian rubles at 30 September 2006 and 31 December 2005 .....	29,908	29,908
Share premium account .....	164,132	164,132
Accumulated other comprehensive income:		
Currency translation adjustment .....	60,738	29,766
Retained earnings .....	218,261	163,237
Total shareholders' equity .....	\$473,039	\$387,043
Total liabilities and shareholders' equity .....	\$1,027,419	\$920,557

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Wimm-Bill-Dann Foods**  
**Condensed Consolidated Statements of Operations and**  
**Comprehensive Income (unaudited)**  
**Nine months ended 30 September 2006**  
**(Amounts in thousands of U.S. dollars, except share and per share data)**

	Nine months ended 30 September	
	2006	2005
Sales .....	\$1,252,630	\$1,025,866
Cost of sales .....	(849,251)	(737,827)
Gross profit .....	403,379	288,039
Selling and distribution expenses .....	(164,846)	(141,756)
General and administrative expenses .....	(100,083)	(78,413)
Other operating expenses, net .....	(25,406)	(6,475)
Operating income .....	113,044	61,395
Financial income and expenses, net .....	(10,259)	(15,895)
Income before provision for income taxes and minority interest .....	102,785	45,500
Provision for income taxes .....	(34,296)	(20,754)
Minority interest .....	(2,303)	(3,002)
Net income .....	<u>\$66,186</u>	<u>\$21,744</u>
Other comprehensive income		
Currency translation adjustment .....	30,972	(10,14)
Comprehensive income .....	<u>\$97,158</u>	<u>\$11,596</u>
Net income per share — basic and diluted: .....	<u>\$1.50</u>	<u>\$0.49</u>
Weighted average number of shares outstanding .....	44,000,000	44,000,000

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Wimm-Bill-Dann Foods**  
**Condensed Consolidated Statements of Cash Flows (unaudited)**  
**Nine months ended 30 September 2006**  
**(Amounts in thousands of U.S. dollars)**

	Nine months ended 30 September	
	2006	2005
<b>Cash flows from operating activities</b>		
Net income .....	\$66,186	\$21,744
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest .....	2,303	3,002
Depreciation and amortisation .....	46,038	39,059
Currency remeasurement (gain) loss relating to bonds payable, long term payables, investments in foreign subsidiaries, and fixed assets of foreign subsidiaries .....	(10,397)	(296)
Change in provision for obsolescence and net realisable value .....	723	711
Provision for doubtful accounts.....	1,999	2,235
Loss on disposal of property, plant and equipment .....	1,972	1,436
Earned income on net investment in direct financing leases .....	(522)	(213)
Deferred tax (benefit)/expense .....	(3,579)	2,051
Non-cash rental received .....	2,271	2,043
Accrual/(reversal) of tax contingent liability .....	588	(918)
Write off of long-term investments .....	86	971
Impairment of tangible assets and intangible assets .....	13,063	-
Impairment of goodwill.....	2,520	-
Write off of unrecoverable investments in direct finance lease.....	190	-
Write-off of unrecoverable VAT.....	584	-
Amortisation of bonds issue expenses .....	890	787
Changes in operating assets and liabilities net of acquisitions:		
Inventory .....	(40,538)	(56,024)
Trade accounts receivable .....	(14,556)	3,293
Advances paid .....	(17,712)	4,951
Taxes receivable.....	3,191	8,430
Other current assets.....	(8,037)	1,586
Other long-term assets.....	45	
Trade accounts payable .....	24,445	10,130
Advances received .....	1,345	1,165
Taxes payable .....	7,855	5,414
Accrued liabilities .....	15,872	4,405
Other current payables .....	4,022	3,297
Other long-term payables .....	(470)	157
Total cash provided by operating activities .....	<u>\$100,377</u>	<u>\$59,416</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Wimm-Bill-Dann Foods**  
**Condensed Consolidated Statements of Cash Flows (unaudited)**  
**Nine months ended 30 September 2006**  
**(Amounts in thousands of U.S. dollars)**

	Nine months ended 30 September	
	2006	2005
<b>Cash flows from investing activities</b>		
Cash paid for acquisition of subsidiaries, net of cash acquired .....	\$(13,433)	\$(10,091)
Cash paid for property, plant and equipment .....	(72,760)	(50,713)
Cash paid for acquisition of investments .....	(155)	(72)
Proceeds from disposal of property, plant and equipment .....	2,715	3,894
Proceeds from disposal of investments		
Cash paid for net investments in direct financing leases .....	(1,261)	(1,302)
Cash received from other long-term assets .....	1,419	424
Cash returned from short-term bank deposits .....	2,921	–
Total cash used in investing activities .....	(80,554)	(57,307)
<b>Cash flows from financing activities</b>		
Short-term loans and notes, net .....	19,399	32,627
Proceeds from long-term loans .....	21,416	1,818
Repayment of long-term loans .....	(17,905)	(2,368)
Repayment of long-term payables .....	(13,439)	(12,025)
Repayment of long-term notes payable .....	(52,332)	–
Dividends paid .....	(9,754)	–
Total cash (used in) provided by financing activities .....	(52,615)	20,052
Total cash (used in) provided by operating, investing and financing activities .....	(32,792)	22,161
Impact of exchange rate differences on cash and cash equivalents .....	6,235	(838)
Net (decrease) increase in cash and cash equivalents .....	(26,557)	21,323
Cash and cash equivalents, at beginning of period .....	93,103	23,791
Cash and cash equivalents, at the end of period .....	\$66,546	\$45,114

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Wimm-Bill-Dann Foods**  
**Condensed Consolidated Statements of Shareholders' Equity**  
**(Amounts in thousands of U.S. dollars)**

	Common Stock		Share premium account	Accumulated other comprehensive income (loss)	Retained earnings	Total
	Shares	Amount				
Balances at 1 January 2005 .....	44,000,000	\$29,908	\$164,132	\$43,905	\$132,971	\$370,916
Net income .....	–	–	–	–	21,744	21,744
Currency translation adjustment .....	–	–	–	(10,148)	–	(10,148)
<b>Balances at 30 September 2005 .....</b>	<b>44,000,000</b>	<b>\$29,908</b>	<b>\$164,132</b>	<b>\$33,757</b>	<b>\$154,715</b>	<b>\$382,512</b>
Balances at 1 January 2006 .....	44,000,000	\$29,908	\$164,132	\$29,766	\$163,237	\$387,043
Net income .....	–	–	–	–	66,186	66,186
Dividends on common stock including taxes \$1,297 .....	–	–	–	–	(11,162)	(11,162)
Currency translation adjustment .....	–	–	–	30,972	–	30,972
<b>Balances at 30 September 2006 .....</b>	<b>44,000,000</b>	<b>\$29,908</b>	<b>\$164,132</b>	<b>\$60,738</b>	<b>\$218,261</b>	<b>\$473,039</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.

---

**WIMM-BILL-DANN FOODS**  
**Notes to Condensed Consolidated Financial Statements (unaudited)**

**Nine months ended 30 September 2006**

*(Amounts in thousands of U.S. dollars, except per share data, 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 of 30 September 2006, owned controlling interests in 31 manufacturing facilities in Russia and elsewhere in the Commonwealth of Independent States (“CIS”), as well as distribution branches in 26 cities in Russia and elsewhere in the CIS. WBD Foods has a strong and diversified brand portfolio with over 1,100 types of dairy products, and over 150 types of juice, nectars and still drinks.

The financial statements included herein are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (“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 periods. These financial statements should be read in conjunction with the Company’s 2005 audited consolidated financial statements and the notes related thereto. The results of operations for the nine-month period ended 30 September 2006 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 2005 audited consolidated financial statements.

**Principles of Consolidation**

The consolidated financial statements of the Company include the accounts of WBD Foods and its subsidiaries where the Company has operating and financial control. Results of subsidiaries acquired or disposed of during the year and accounted for by the purchase method have been included in operations from the relevant date of acquisition to the relevant date of disposal. Pro forma results of operations reflecting these acquisitions have not been presented because the results of operations of the acquired companies, either individually or collectively, are not material to consolidated results of operations. All inter-company accounts and transactions are eliminated upon consolidation. Minority interests in the net assets and net results of the Company’s subsidiaries are shown under “Minority interests” in the accompanying consolidated balance sheets and statements of operations.

**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 nine-month periods ended 30 September 2006 and 2005 consists of net income and a currency translation adjustment in the amount of \$ 30,972 and \$(10,148), respectively.

**Reclassifications**

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

**Stock options plan**

The Company follows the provisions of Statement of Financial Accounting Standards No. 123 (revised) “Share-Based Payment” (SFAS No. 123R), which requires all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value. The fair value of share-based payment awards is estimated on the date of grant using an option-pricing model. The Company has chosen to use the Black-Scholes Model as the option –pricing model and the value of the portion of the award that is ultimately expected to vest is being recognised as expense on the straight-line method over the requisite service periods.

**3 Inventory**

Inventory as of 30 September 2006 and 31 December 2005 was comprised as follows:

	30 September 2006	31 December 2005
Raw materials .....	\$103,992	\$83,300
Work in progress .....	18,702	10,749
Finished goods.....	58,386	36,548
Inventory .....	<u>\$181,080</u>	<u>\$130,597</u>

**4 Segment Information**

The Company’s major reportable business segments are dairy, beverages and baby food. These segments are strategic business units that produce and offer distinctive products, i.e. sterilised and pasteurised milk, yogurts, dairy desserts, and other dairy products in the dairy segment; fruit juices, nectars, juice based drinks and bottled mineral water in the beverages segment and milk and juice based baby food products in the baby food segment.

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

**Operating Segment — Nine months ended 30 September 2006**

	Dairy	Beverages	Baby Food	Common and corporate assets/ expenses	Intersegment receivables	Consolidated
Total sales.....	\$941,393	\$241,452	\$82,630	\$–	\$–	\$1,265,475
Inter segment sales .....	(12,845)	–	–	–	–	(12,845)
Sales to external customers.....	928,548	241,452	82,630	–	–	1,252,630
Cost of sales .....	(642,315)	(158,392)	(48,544)	–	–	(849,251)
Gross profit .....	286,233	83,060	34,086	–	–	403,379
Operating expenses.....	(167,148)	(80,019)	(12,190)	(30,978)	–	(290,335)
Operating income (loss) .....	119,085	3,041	21,896	(30,978)	–	113,044
Financial income and expense, net and current provision for income taxes.....	(31,181)	(3,370)	(6,031)	(7,552)	–	(48,134)
Net segment profit (loss).....	<u>\$87,904</u>	<u>\$(329)</u>	<u>\$15,865</u>	<u>\$(38,530)</u>	<u>\$–</u>	<u>\$64,910</u>
Deferred tax benefit .....						3,579
Minority interest.....						(2,303)
Net income (loss) .....						<u>\$66,186</u>
Segment total assets .....	<u>\$752,687</u>	<u>\$221,432</u>	<u>\$65,857</u>	<u>\$105,994</u>	<u>\$(118,551)</u>	<u>\$1,027,419</u>

## Notes to Condensed Consolidated Financial Statements (unaudited)

### Operating Segment — Nine months ended 30 September 2005

	Dairy	Beverages	Baby Food	Common and corporate assets/ expenses	Intersegment receivables	Consolidated
Total sales.....	\$736,865	\$227,131	\$63,668	\$36	\$-	\$1,027,700
Inter segment sales .....	(1,834)	-	-	-	-	(1,834)
Sales to external customers .....	735,031	227,131	63,668	36	-	1,025,866
Cost of sales .....	(551,343)	(146,918)	(39,443)	(123)	-	(737,827)
Gross profit .....	183,688	80,213	24,225	(87)	-	288,039
Operating expenses.....	(130,116)	(65,117)	(8,241)	(23,170)	-	(226,644)
Operating income (loss) .....	53,572	15,096	15,984	(23,257)	-	61,395
Financial income and expense, net and current provision for income taxes.....	(9,382)	(4,118)	(3,758)	(17,340)	-	(34,598)
Net segment profit (loss).....	\$44,190	\$10,978	\$12,226	\$(40,597)	-	\$26,797
Deferred tax credit .....						(2,051)
Minority interest.....						(3,002)
Net income .....						\$21,744
Segment total assets .....	\$577,858	\$216,653	\$69,587	\$65,820	\$(73,559)	\$856,359

## 5 Dividends

At the annual stockholders' meeting on 30 June 2006, dividends per common share were declared in the amount of 6.87 Russian rubles per common share which at the date of the meeting was equivalent to \$0.25 correspondingly. The dividends were paid to shareholders in August.

## 6 Share-based Awards

In April 2006 the Company entered into a share-based award agreement with one of its executives. The arrangement includes awards of 200,000 share options in April in each of the five years beginning in 2006. The exercise price of the options equals the average sales price of the stock over the 90 days period preceding each annual grant. Each tranche of 200,000 options vest one-third annually over a three year period and can be settled in cash or shares. The contractual term of each option is five years from grant date.

In accordance with SFAS No. 123R the award will be accounted for as a liability and, as such, the awards' fair value will be remeasured at each reporting date until the date of settlement.

Compensation cost for each period until settlement is based on posting the change, dependant on the percentage of the requisite service period that has been rendered at the reporting date, in the fair value of the award for each reporting period.

In April 2006, 200,000 share options were granted at an exercise price of \$25.32 per share. As of the grant date, the Company expected that all of the shares will vest. The Company expensed \$0,7 million from the grant date through 30 September 2006.

The determination of fair value of share-based awards on the date of grant and each subsequent reporting date, using an option-pricing model, is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards and projected employee stock options exercise behaviours. Expected volatilities are based on the historical volatility of the Company's common stock over the same term as the expected term of the award. The expected term of the options granted is based on contractual terms of the options and the assumption that the options will be exercised after the vesting

period but before the end of the contractual term. The risk-free rate is based on the RF Government Bonds with expected terms similar to the expected term of the equity award.

The following assumptions were used in the option pricing model: risk free rate—6.00 per cent.; expected option life—2.51 years; expected dividend yield—1.36 per cent.; stock volatility—36.8 per cent.; fair value of option per share as of measurement date (30 September 2006)-\$21.61.

## **7 Contingencies**

### **Russian Environment and Current Economic Situation**

While there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

### **Taxation**

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 30 September 2006 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

In the period prior to 1 January 2003, WBD Foods used certain tax optimisation initiatives. The Russian tax authorities may challenge these initiatives. The Company believes that the tax savings to the Company in respect of these initiatives amounted to approximately \$3.8 million. Should the Russian tax authorities question these initiatives and prove successful in their claim, they would be entitled to recover these amounts, together with penalties amounting to 20 per cent. of such amounts and interest at the rate of 1/300th of the Central Bank of Russia rate, equating to 0.038 per cent. as of 30 September 2006, for each day of delay for late payment of such amounts. Management will vigorously defend any claims that these initiatives are contrary to Russian tax law. Starting from January 2003, WBD Foods discontinued using these tax optimisation initiatives.

During the period 2003 to 31 March 2005 certain subsidiaries of WBD Foods utilised small business enterprises income tax benefits which were available under Russian income tax legislation being in force before 1 January 2002. The Company believes that the tax savings to the Group for the period 2003 to 31 March 2005 in respect of these income tax benefits amounted to approximately \$5.06 million. Should the Russian tax authorities question the appropriate use of these benefits by WBD Foods' subsidiaries for the years 2003, 2004, and January — March 2005, issue a claim and prove successful in the court, they would be entitled to recover the amount claimed, together with penalties amounting to 20 per cent. of such amount and interest at the rate of 1/300th of the Central Bank of Russia rate, equating to 0.038 per cent. as of 30 September 2006, for each day of delay for late payment of such amounts. In any case, WBD Foods' management believes that it has strong grounds on which to oppose any such claim and will vigorously defend its position.

### **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.

### **8 Impairment of Tangible Assets and Goodwill**

The Company performs asset impairment analyses on its facilities on an ongoing basis. As of 30 September 2006 a thorough review of all non-current assets was performed in relation to a future company strategy which was altered with the change in top management. The assessment considered the potential recoverability of the carrying amounts of fixed assets and positive goodwill.

As a result the Company has recognised an impairment loss of \$16.2 million in the period of nine months of 2006, including \$13.7 million related to the fixed assets and \$2.5 million related to a positive goodwill (Novokuibyshevsk plant). The related deferred tax benefit amounted to \$3.1 million.

The impairment loss charge was included in "Other Operating Expenses" line of Income Statement for the period of nine months of 2006. This amount is attributable to operational segments as follows: Dairy — \$4.1 million, Beverages — \$9.6 million.

The impairment was recognised based on the standards promulgated by the Financial Accounting Standard Board. Such standards require the recognition of an impairment charge when the cash flows resulting from the operation of an asset are expected to be less than its book value.

### **9 Restructuring Costs**

In 2006 the company has undergone certain restructuring changes targeted at optimisation of personnel headcount and decrease of personnel expenses in Dairy, Beverage and Holding operational segments. The optimisation was carried out through the liquidation of duplicated functions and excessive labour force. According to these changes, certain number of employees has been laid-off and compensated for it.

The restructuring charges mainly relate to redundancy costs, which for the nine months ended 30 September 2006 totalled \$4.2 million. This amount is attributable to operating segments as follows: Dairy — \$1.9 million, Beverages — \$1.9 million, Holding — \$0.4 million. The restructuring costs were included in "Other Operating Expenses" line of Income Statement. Of the total, \$ 2.9 million is accrued as Accrued liabilities as of 30 September 2006.

### **10 Subsequent Events**

#### **Dividends proposal**

At the annual stockholders' meeting on 5 December 2006, dividends per common share were declared for the period of nine months of 2006 in the amount of 7.86 Russian rubles per common share which at the date of the meeting was equivalent to \$0.30.

#### **Acquisition of Ochakovo**

In November 2006, WBD Foods acquired 93.74 per cent. of Ochakovo Milk Plant for cash consideration of \$63,698. The acquired company is the fourth largest milk producer in Russia and one of the largest in Moscow which shares of national and Moscow milk markets in 2006 were assessed as 3.1 per cent. and 8.4 per cent., correspondingly. Ochakovo Milk Plant owns popular brands ("33 Korowy", "Pastushok", "Kremlevskie Producty", "Aktilife") and possesses a good reputation among customers. The acquisition of Ochakovo Milk Plant allows the Company to increase its presence in Moscow and Central region as well as to enrich its existing product and brand portfolio.

### Acquisition of Manros

In December 2006, WBD Foods acquired 100% of Manros dairy plant for cash consideration of \$51,040. The acquired company is the largest dairy producer in Omsk Region and one of the largest dairy enterprises in Siberia and the Far East. Manros owns popular local brands (“Na zdorovie”, “Molochnaya Dolina” and “Vkusnika”). The acquisition of Manros allows the Company to increase its market share in Siberia and the Far East as well as to enrich brand portfolio.

## 11 Accounting Pronouncements Effective as of 1 January 2006

### Accounting for Exchanges of Nonmonetary Assets

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*. SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions* (“APB No. 29”), is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. These provisions of SFAS No. 153 are effective the Company beginning 1 January 2006 and adoption of the provisions did not have any impact on the Company’s results of operations, financial position or cash flows.

### Inventory Costs

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

The guidance is effective for inventory costs incurred by the Company beginning 1 January 2006. The Company has adopted provisions of SFAS No.151 from 1 January 2006.

The adoption of the provisions of SFAS No. 151 had an impact on the Company’s results of operations in the nine months ended 30 September 2006 of \$0.5 million.

### Accounting Changes and Error Corrections

In May 2005, the Financial Accounting Standard Board (“the FASB”) issued SFAS No. 154, *Accounting Changes and Error Corrections*, which is a replacement of Accounting Principles Board (“APB”) Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Changes in Interim Financial Statements*. SFAS No. 154 applies to all voluntary changes in accounting principle and changes the accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods’ financial statements of a voluntary change in accounting principle unless it is impracticable. In addition, SFAS No. 154 requires that a change in method of depreciation, amortisation, or depletion for long-lived, nonfinancial assets be accounted for as a change in accounting estimate that is effected by a change in accounting principle. SFAS No. 154 is effective for any accounting changes or corrections of errors made by the Company beginning 1 January 2006.

No accounting changes or error corrections were made in the nine months ended 30 September 2006.

## 12 New Accounting Pronouncements

### Accounting for Certain Hybrid Financial Instruments

In February 2006, the FASB issued SFAS No. 155 *Accounting for Certain Hybrid Financial Instruments*, which amends FASB Statements No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitised Financial Assets.

SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133, establishes a requirement to evaluate interests in securitised financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation and clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. SFAS No. 155 amends Statement 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. These provisions of SFAS No. 155 are effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after 15 September 2006.

The adoption of the provisions of SFAS No. 155 is not expected to have an impact on the Company's results of operations, financial position or cash flows.

### Accounting for Servicing of Financial Assets

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets, which amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

This Statement requires that all separately recognised servicing assets and servicing liabilities be initially measured at fair value, if practicable. This Statement permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. An entity that uses derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities is required to account for those derivative instruments at fair value. These provisions of SFAS No. 156 are effective at the beginning of an entity's first fiscal year that begins after 15 September 2006.

The adoption of the provisions of SFAS No. 156 is not expected to have an impact on the Company's results of operations, financial position or cash flows.

### Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48") *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognised in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 clearly scopes out income taxes from Financial Accounting Standards Board Statement No. 5, "Accounting for Contingencies". FIN 48 is effective for fiscal years beginning after 15 December 2006; however, early adoption is allowed. Management is still assessing the adoption impact of FIN48 on its financial position and results of operations.

### Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*.

This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement

applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements.

This Statement is effective for financial statements issued for fiscal years beginning after 15 November 2007, and interim periods within those fiscal years.

The adoption of the provisions of SFAS No. 157 is not expected to have an impact on the Company's results of operations, financial position or cash flows.

#### **Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans**

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which amends FASB Statements No. 87, 88, 106, and 132(R).

This Statement improves financial reporting by requiring an employer to recognise the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognise changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organisation. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions.

An employer with publicly traded equity securities is required to initially recognise the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after 15 December 2006.

The adoption of the provisions of SFAS No. 158 is not expected to have an impact on the Company's results of operations, financial position or cash flows.

---

## Report of Independent Registered Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Wimm-Bill-Dann Foods, a Russian Open Joint Stock Company and subsidiaries (collectively “the Company”) as of 31 December 2005 and 2004, and the related consolidated statements of income and comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended 31 December 2005. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wimm-Bill-Dann Foods and subsidiaries as of 31 December 2005 and 2004 and the consolidated results of its operations and its cash flows for each of the three years in the period ended 31 December 2005 in conformity with U.S. generally accepted accounting principles.

/S/ ERNST & YOUNG LLC

21 March 2006  
Moscow, Russia

**Wimm-Bill-Dann Foods**  
**Consolidated Balance Sheets**  
**Years ended 31 December 2005 and 2004**  
**(Amounts in thousands of U.S. dollars)**

Assets

	31 December	
	2005	2004
<b>Current assets</b>		
Cash and cash equivalents (Note 5) .....	\$93,103	\$23,791
Short-term bank deposits .....	32,164	–
Trade receivables, net (Note 6) .....	59,968	62,210
Inventory (Note 7) .....	130,597	102,039
Taxes receivable .....	61,480	85,578
Advances paid.....	9,715	19,494
Net investment in direct financing leases (Note 8) .....	2,335	2,109
Deferred tax asset (Note 18) .....	8,750	6,265
Other current assets .....	8,915	7,145
<b>Total current assets</b> .....	<b>407,027</b>	<b>308,631</b>
<b>Non-current assets</b>		
Property, plant and equipment, net (Note 10).....	459,527	437,320
Intangible assets, net (Note 9).....	7,078	5,027
Goodwill (Note 11).....	32,008	26,291
Net investment in direct financing leases — non-current portion (Note 8) .....	3,072	3,895
Long-term investments (Note 12) .....	138	2,417
Deferred tax asset — non-current portion (Note 18) .....	5,554	7,001
Other non-current assets (Note 13).....	6,153	5,506
<b>Total non-current assets</b> .....	<b>513,530</b>	<b>487,457</b>
<b>Total assets</b> .....	<b>\$920,557</b>	<b>\$796,088</b>

The accompanying notes are an integral part of these statements.

**Wimm-Bill-Dann Foods**  
**Consolidated Balance Sheets**  
**Years ended 31 December 2005 and 2004**  
**(Amounts in thousands of U.S. dollars)**  
**Liabilities and Shareholders' Equity**

	31 December	
	2005	2004
<b>Current liabilities</b>		
Trade accounts payable .....	\$65,780	\$62,400
Advances received .....	5,291	3,492
Short-term loans (Note 15) .....	19,554	17,554
Long-term loans, current portion (Note 15) .....	3,823	936
Notes payable (Note 16) .....	49,794	–
Taxes payable .....	13,406	13,281
Accrued liabilities (Note 14) .....	17,071	14,691
Government grants — current portion (Note 19) .....	2,174	2,329
Other payables (Note 17) .....	30,200	29,615
<b>Total current liabilities</b> .....	<u>207,093</u>	<u>144,298</u>
<b>Long-term liabilities</b>		
Long-term loans (Note 15) .....	1,824	7,120
Long-term notes payable (Note 16).....	254,230	201,709
Other long-term payables (Note 17) .....	26,893	39,294
Government grants — long-term portion (Note 19) .....	3,219	5,156
Deferred taxes — long-term portion (Note 18) .....	15,636	10,268
<b>Total long-term liabilities</b> .....	<u>301,802</u>	<u>263,547</u>
<b>Total liabilities</b> .....	<u>508,895</u>	<u>407,845</u>
<b>Commitments and contingencies (Note 29)</b> .....	–	–
<b>Minority interest (Note 21 and 30)</b> .....	24,619	17,327
<b>Shareholders' equity (Note 20)</b>		
Common stock: 44,000,000 shares authorised, issued and outstanding with a par value of 20 rubles at 31 December 2005 and 2004 .....	29,908	29,908
Share premium account.....	164,132	164,132
Accumulated other comprehensive income:		
Currency translation adjustment .....	29,766	43,905
Retained earnings .....	163,237	132,971
<b>Total shareholders' equity</b> .....	<u>387,043</u>	<u>370,916</u>
<b>Total liabilities and shareholders' equity</b> .....	<u>\$920,557</u>	<u>\$796,088</u>

The accompanying notes are an integral part of these statements.

**Wimm-Bill-Dann Foods**  
**Consolidated Statements of Operations and**  
**Comprehensive Income**  
**Years ended 31 December 2005, 2004 and 2003**  
**(Amounts in thousands of U.S. dollars, except share and per share data)**

	2005	2004	2003
Sales (Note 27) .....	\$1,399,289	\$1,189,291	\$938,459
Cost of sales (Note 22) .....	(1,002,246)	(861,661)	(665,104)
Gross profit .....	397,043	327,630	273,355
Selling and distribution expenses (Note 23).....	(191,990)	(173,433)	(140,746)
General and administrative expenses (Note 24).....	(109,642)	(92,816)	(75,973)
Other operating expenses, net .....	(7,916)	(8,458)	(7,481)
Operating income .....	87,495	52,923	49,155
Financial income and expenses, net (Note 25).....	(22,868)	(14,618)	(15,273)
Income before provision for income taxes and minority interest .....	64,627	38,305	33,882
Provision for income taxes (Note 18) .....	(30,712)	(12,170)	(10,717)
Minority interest (Note 21) .....	(3,649)	(3,161)	(2,012)
Net income .....	<u>\$30,266</u>	<u>\$22,974</u>	<u>\$21,153</u>
Other comprehensive income, net of tax			
Currency translation adjustment .....	(14,139)	23,324	20,581
Comprehensive income .....	<u>\$16,127</u>	<u>\$46,298</u>	<u>\$41,734</u>
Earnings per share — basic and diluted:			
Net income .....	<u>\$0.69</u>	<u>\$0.52</u>	<u>\$0.48</u>
Weighted average number of shares outstanding, basic and diluted....	44,000,000	44,000,000	44,000,000

The accompanying notes are an integral part of these statements.

**Wimm-Bill-Dann Foods**  
**Consolidated Statements of Cash Flows**  
**Years ended 31 December 2005, 2004 and 2003**  
**(Amounts in thousands of U.S. dollars)**

	2005	2004	2003
<b>Cash flows from operating activities</b>			
Net Income .....	\$30,266	\$22,974	\$21,153
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest .....	3,649	3,161	2,012
Depreciation and amortisation.....	53,435	44,003	30,780
Currency remeasurement loss(gain) relating to bonds payable and long-term payables.....	990	(9,938)	(8,245)
Obsolescence and net realisable value expense .....	1,077	3,482	2,100
Provision for doubtful accounts.....	3,908	3,722	10,220
Loss (gain) on disposal of property, plant and equipment .....	1,321	1,013	(358)
Earned income on net investment in direct financing leases.....	(402)	(639)	(483)
Deferred tax expense(benefit) .....	3,327	(6,019)	(4,149)
Non-cash rental received .....	2,496	1,957	2,095
Reversal of tax contingent liability .....	(800)	(128)	(389)
Loss/(gain) from securities and disposal of long-term investments.....	1,786	190	(1,903)
Amortisation of bonds issue expenses .....	1,046	1,025	613
Changes in operating assets and liabilities:			
(Increase) decrease in inventories .....	(25,361)	(9,208)	2,394
Increase in trade accounts receivable .....	(2,636)	(4,883)	(2,356)
Decrease (increase) in advances paid .....	9,553	1,356	(7,681)
Decrease (increase) in taxes receivable.....	15,082	13,979	(30,723)
(Increase) decrease in other current assets .....	(1,062)	(3,346)	439
Increase in trade accounts payable.....	3,649	7,000	6,363
Increase (decrease) in advances received .....	1,880	719	(1,565)
Increase in taxes payable .....	6,698	1,526	5,492
Increase in accrued liabilities .....	2,816	2,913	2,287
Increase (decrease) in other current payables.....	678	(3,148)	2,071
Increase (decrease) in other long-term payables.....	541	9	(227)
<b>Total cash provided by operating activities .....</b>	<b>\$113,937</b>	<b>\$71,720</b>	<b>\$29,940</b>

The accompanying notes are an integral part of these statements.

**Wimm-Bill-Dann Foods**  
**Consolidated Statements of Cash Flows**  
**Years ended 31 December 2005, 2004 and 2003**  
**(Amounts in thousands of U.S. dollars)**

	2005	2004	2003
<b>Cash flows from investing activities:</b>			
Cash paid for acquisition of subsidiaries, net of cash acquired .....	\$(24,964)	\$(6,697)	\$(7,002)
Cash paid for property, plant and equipment .....	(72,805)	(68,103)	(91,974)
Cash paid for acquisition of investments .....	(71)	-	(753)
Proceeds from disposal of investments.....	538	675	4,196
Proceeds from disposal of property, plant and equipment .....	5,944	2,081	2,437
Cash paid for net investments in direct financing leases .....	(1,982)	(1,764)	(2,046)
Cash invested in short-term bank deposits.....	(31,817)	-	-
Net cash used in investing activities.....	<u>(125,157)</u>	<u>(73,808)</u>	<u>(95,142)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from long-term notes payable, net of debt issuance costs ....	106,000	-	194,476
Short-term loans and notes, net .....	(3,795)	7,967	(107,820)
Repayment of long-term loans.....	(4,099)	(2,481)	(3,024)
Proceeds from long-term loans .....	1,636	343	5,138
Repayment of long-term payables .....	(17,123)	(19,727)	(15,371)
Repayment of long-term notes payable .....	-	(2,261)	-
Total cash provided by (used in) financing activities .....	<u>82,619</u>	<u>(16,159)</u>	<u>73,399</u>
Impact of exchange rate differences on cash and cash equivalents.....	(2,087)	1,774	2,727
Net increase(decrease) in cash and cash equivalents .....	<u>69,312</u>	<u>(16,473)</u>	<u>10,924</u>
Cash and cash equivalents, at beginning of the year .....	<u>23,791</u>	<u>40,264</u>	<u>29,340</u>
Cash and cash equivalents, at the end of the year .....	<u>\$93,103</u>	<u>\$23,791</u>	<u>\$40,264</u>
<b>Supplemental Information:</b>			
Income taxes paid .....	\$27,123	\$20,523	\$12,280
Interest paid.....	22,871	14,615	17,223
Income taxes offset with VAT receivables .....	2,715	1,842	775
Taxes other than income taxes offset with VAT receivables.....	3,896	6,390	671
Vendor financed acquisitions of property, plant and equipment .....	<u>\$5,709</u>	<u>\$7,335</u>	<u>\$12,899</u>

The accompanying notes are an integral part of these statements.

**Wimm-Bill-Dann Foods**  
**Consolidated Statements of Shareholders' Equity**  
**(Amounts in thousands of U.S. dollars)**

	Common Stock		Share premium account	Accumulated other comprehensive income (loss)	Retained earnings	Total
	Shares	Amount				
Balances at 1 January 2003 .....	44,000,000	\$29,908	\$164,132	\$-	\$88,844	\$282,884
Net income .....	-	-	-	-	21,153	21,153
Currency translation adjustment .....	-	-	-	20,581	-	20,581
<b>Balances at 31 December 2003 .....</b>	<b>44,000,000</b>	<b>\$29,908</b>	<b>\$164,132</b>	<b>\$20,581</b>	<b>\$109,997</b>	<b>\$324,618</b>
Net income .....	-	-	-	-	22,974	22,974
Currency translation adjustment .....	-	-	-	23,324	-	23,324
<b>Balances at 31 December 2004 .....</b>	<b>44,000,000</b>	<b>\$29,908</b>	<b>\$164,132</b>	<b>\$43,905</b>	<b>\$132,971</b>	<b>\$370,916</b>
Net income .....	-	-	-	-	30,266	30,266
Currency translation adjustment .....	-	-	-	(14,139)	-	(14,139)
<b>Balances at 31 December 2005 .....</b>	<b>44,000,000</b>	<b>\$29,908</b>	<b>\$164,132</b>	<b>\$29,766</b>	<b>\$163,237</b>	<b>\$387,043</b>

The accompanying notes are an integral part of these statements.

---

**WIMM-BILL-DANN FOODS**  
**Notes to Consolidated Financial Statements**  
**Years ended 31 December 2005 and 2004**

*(Amounts in thousands of U.S. dollars, except per share data, unless otherwise stated)*

## **1 The Company**

Wimm-Bill-Dann Foods (“WBD Foods” or “the Company”) is an open joint stock company registered in Russia. It is a holding company which, as of 31 December 2005, owned controlling interests in 30 manufacturing facilities in Russia and elsewhere in the Commonwealth of Independent States (“CIS”), as well as distribution branches in 26 cities in Russia and elsewhere in the CIS. WBD Foods has a strong and diversified brand portfolio with over 1,100 types of dairy products, and over 150 types of juice, nectars and still drinks.

## **2 Russian Environment and Current Economic Situation**

The Russian economy displays certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the government’s continued actions with regard to supervisory, legal, and economic reforms.

## **3 Summary of Significant Accounting Policies**

### **Accounting Principles**

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

### **Principles of Consolidation**

The consolidated financial statements of the Company include the accounts of WBD Foods and its subsidiaries where the Company has operating and financial control. Results of subsidiaries acquired or disposed of during the year and accounted for by the purchase method have been included in operations from the relevant date of acquisition to the relevant date of disposal. Pro forma results of operations reflecting these acquisitions have not been presented because the results of operations of the acquired companies, either individually or collectively, are not material to consolidated results of operations. All inter-company accounts and transactions are eliminated upon consolidation. Minority interests in the net assets and net results of the Company’s subsidiaries are shown under “Minority interests” in the accompanying consolidated balance sheets and statements of income.

### **Comprehensive Income**

Comprehensive income is defined as the change in equity of a company during a period from non owner sources. Comprehensive income of WBD Foods for the years ended 31 December 2005, 2004 and 2003 consists of net income and a currency translation adjustment in the amount of (\$14,139), \$23,324 and \$20,581, respectively.

### **Translation Methodology**

Starting from 1 January 2003, Russia is no longer considered a hyperinflationary economy, therefore, the U.S. GAAP financial statements are prepared using the local currency, the Russian ruble, as the functional currency for WBD Foods’ Russian subsidiaries. Subsequent translation to the reporting currency, the U.S.

dollar, is made in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 52. All assets and liabilities of the Company and its subsidiaries with functional currencies other than the U.S. dollar are translated into U.S. dollar equivalents at exchange rates as follows: (1) asset and liability accounts at the rate of exchange in effect on the balance sheet date, (2) revenues and expenses at the average exchange rates for the year, and (3) shareholders’ equity accounts at historical exchange rates. Translation gains or losses are recorded as a separate component of shareholders’ equity, and transaction gains and losses are reflected in net income.

In respect of Wimm-Bill-Dann Netherlands B.V., the U.S. dollar has been used to prepare the financial statements as this is its’ functional currency. The financial statements of Ukrainian, Kyrgyz, Usbekh and Kazakh subsidiaries have been prepared using the Ukrainian hryvnia, Kyrgyz som, Uzbek sum and Kazakh tenge, respectively, as the functional currency. Translation (remeasurement) of domestic currency denominated financial statements into U.S. dollars has been performed in accordance with the provisions of SFAS No. 52.

The ruble is not a fully convertible currency outside the territory of the Russian Federation. Within the Russian Federation, official exchange rates are determined daily by the Central Bank of Russia (“CBR”). Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the CBR. As of 31 December 2005 and 2004, the official rates of exchange were 28.78 rubles = 1 U.S. dollar and 27.75 rubles = 1 U.S. dollar, respectively. The translation of local currency denominated assets and liabilities into US dollars for the purposes of these financial statements does not indicate that the Company could realise or settle, in U.S. dollars, the reported values of these assets and liabilities. Likewise, it does not indicate that the Company could return or distribute the reported US dollar value of capital to its shareholders.

### Management Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Examples include estimates of provisions for bad and doubtful accounts, obsolete inventory, and valuation allowance for deferred tax assets. Actual results could differ from those estimates.

### Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and in the Company’s bank accounts and short-term investments having original maturities of three months or less.

### Short-Term Bank Deposits

Short-term bank deposits have maturities of more than three months and less than one year. Short-term bank deposits are invested with banks and earn interest at the prevailing short-term deposit rates. Deposits are presented at their cost, including accrued interest. The short-term bank deposits are in rubles and bear an average annual interest of 6 per cent.

### Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated at their net realisable value which approximates their fair value. The Company provides an allowance for doubtful accounts based on management’s periodic review of accounts, including the delinquency of account balances. Delinquency status is based on contractual terms. The Company evaluates the collectibility of its receivables at least quarterly, based upon various factors, including the financial condition and payment history of major customers, an overall review of collections experience of other accounts and economic factors or events expected to affect the Company’s future collections.

Trade receivables are written-off when evidence exists that they will not be collectible. The Company generally does not require collateral from its credit customers.

**Inventory**

Inventories, including work-in-process, are valued at the lower of cost or market. Cost is the price paid or the consideration given to acquire the asset. Cost is determined on the basis of weighted average cost. For processed inventories, cost is the sum of the expenditures and charges, direct and indirect, in bringing goods to their existing condition or location. It includes the applicable allocation of production fixed and variable overhead costs. Market is the current replacement cost, whether by purchase or by reproduction, limited to the estimated selling price less any costs of completion and disposal (net realisable value) at the maximum level, and net realisable value, less an allowance for normal profit at the minimum level. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing, and distribution. Unrealisable inventory is fully provided for in the accompanying consolidated financial statements.

**Value-Added Taxes**

Value-added taxes (“VAT”) related to sales are payable based upon invoices issued to the customer or collection of respective receivables. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales.

VAT related to purchase transactions that are subject to offset against VAT payable after the balance sheet dates are recognised in the balance sheets on a gross basis.

**Property, Plant and Equipment**

Property, plant and equipment are stated at historic acquisition cost, less accumulated depreciation.

The acquisition cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance costs, are normally expensed in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of property, plant and equipment. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in other operating expenses of the consolidated statement of income.

The carrying value of property, plant and equipment, as determined above is depreciated on a straight-line basis over the estimated useful lives of the related assets. The following estimated useful lives have been applied:

Buildings	20-50 years
Machinery and equipment	7-20 years
Computer hardware	3-10 years
Other	5-10 years

Construction in progress comprises costs directly related to construction of property, plant and equipment plus an appropriate allocation of variable and fixed overheads that are incurred in construction. Construction in progress is depreciated once the property, plant and equipment are put into operation.

The Company capitalises interest costs with respect to qualifying construction projects.

**Capital Leases — Lessor Accounting**

The Company presents assets leased as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding and

included in other operating expenses. Initial direct costs are deferred and expensed over the period in which the related revenue is recognised.

### Intangible Assets

Intangible assets with determinable useful lives are amortised using the straight-line method over their estimated period of benefit, ranging from two to ten years. Indefinite-lived intangibles and intangible assets with determinable useful lives are evaluated annually for impairment or when indicators exist indicating such assets may be impaired, such determination of fair value being based on a valuation model that incorporates expected future cash flows and profitability projections.

### Goodwill

Goodwill represents the purchase price for businesses acquired in excess of the fair value of identifiable net assets acquired. Goodwill is not amortised, but instead tested for impairment at least annually or whenever indicators of impairment arise.

In cases where the fair value of the net assets acquired exceed the purchase price, that excess (negative goodwill) is allocated as a pro rata reduction of the amounts that otherwise would have been assigned to the identifiable assets acquired, excluding financial assets other than investments accounted for by the equity method, assets to be disposed of by sale, deferred tax assets and any current assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess is recognised as an extraordinary gain in the period in which the business combination is completed.

### Impairment of Long-Lived Assets

When events and circumstances occur indicating that the carrying amount of a long-lived asset (group) may not be recoverable, the Company estimates the future undiscounted cash flows expected to derive from the use and eventual disposition of the asset (group). If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the long-lived asset (group), the Company would then calculate the impairment as the excess of the carrying value of the asset (group) over the estimate of its fair market value. Impairment loss is included in other operating expenses in the consolidated statement of income.

### Investments

WBD Foods holds non-controlling interests in Russian legal entities which are valued at cost and are not readily marketable securities (see Note 12). Management periodically assesses the realisability of the carrying values of the investments and provides valuation reserves, if required.

### Revenue Recognition

Sales are recognised, net of VAT and discounts, when goods are shipped to customers. At the time of shipment, in accordance with the Company's standard sales agreements, the title is transferred and the customer assumes the risk and rewards of ownership. This policy is consistent with the Russian Civil Code, which states that legal title transfers when a product is shipped to a customer unless specifically overridden by the sales agreement.

The Company offers sales volume discounts based on individual customer volumes acquired in a previous month. An accrual for such discounts is made at the end of each accounting period and is recognised as a reduction of revenue in the consolidated statements of income.

### Shipping and Handling Expenses

Shipping and handling expenses incurred by the Company are reflected in sales and distribution expenses in the accompanying consolidated statements of income.

### Government Grants

Government grants are recognised when the related cash or assets are received. Government grants are deferred and amortised over the period necessary to match them with the related costs that they are intended to compensate. Grants received are treated as deferred income in the accompanying consolidated financial statements. The amortisation of government grants related to acquisition of property, plant and equipment is recognised as a reduction of cost of sales when depreciation expense of the related long-term assets is recognised. Interest expense incurred in government grant loan programs is recognised in financial income and expenses, net.

### Debt Issuance Costs

Debt issuance costs are capitalised and amortised using the straight line method over the lives of the related debt.

### Taxation

Deferred tax assets and liabilities are recognised for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and loss or tax credit carryforwards using enacted tax rates expected to be in effect at the time these differences are realised. Valuation allowances are recorded for deferred tax assets where it is more likely than not that such assets will not be realised. For financial reporting purposes, a valuation allowance has been recognised to reflect management's estimate of the realisation of deferred tax assets. A valuation allowance is provided when it is more likely than not that some or all of the deferred tax assets will not be realised in the future. These evaluations are based on expectations of future taxable income and reversals of various taxable temporary differences.

### Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred. Advertising costs for the years ended 31 December 2005, 2004 and 2003 were \$45,336, \$46,106 and \$40,518, respectively, and are reflected as a component of selling and distribution expenses in the accompanying consolidated statements of income (see Note 23).

### Earnings per Share

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

### Concentration of Credit Risk

Financial instruments which potentially expose the Company to concentrations of credit risk consist primarily of cash in banks, short-term bank deposits and trade accounts receivable. The Company deposits available cash with several financial institutions. The credit risk associated with trade accounts receivable is limited due to the Company's large domestic customer base. At 31 December 2005, 2004 and 2003, the Company had no other significant concentrations of credit risk. The Company does not usually require a collateral from its customers.

### Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, short-term bank deposits, accounts receivable, accounts payable and short-term loans reported in the consolidated balance sheets approximate fair values due to the short maturity of those instruments. Management is of the opinion that the carrying value of the Company's long-term loans approximates fair value.

The fair value of cost method investments was not estimated as there were no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investments and

management believes that it is not practicable considering the fact that they are not readily marketable securities.

### Segment Reporting

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, requires that a business enterprise reports financial and descriptive information about its reportable operating segments. WBD Foods currently manages its business as three major operating segments — dairy, beverages and baby food production and distribution, and accordingly, reports segment information on this basis. Starting from 1 January 2005 the Company changed the composition of its segments. In the periods prior to 1 January 2005 the Company's major reportable business segments were dairy, juice and water. Starting from 1 January 2005, the baby food segment was separated from dairy segment due to its increasing strategic significance as a separate business segment. Further, juice and water segment were merged into one segment, termed the beverages segment, due to similarities of market characteristics and management centralisation. The Company has reclassified its 2004 and 2003 segment information to be consistent with the 2005 presentation.

### Reclassifications

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

### New Accounting Pronouncements

#### *Accounting for Exchanges of Nonmonetary Assets*

In December 2004, the Financial Accounting Standard Board ("the FASB") issued SFAS No. 153, *Exchanges of Nonmonetary Assets*.

SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions* ("APB No. 29"), is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. These provisions of SFAS No. 153 are effective for financial statements for fiscal years beginning after 15 June 2005.

Earlier application is permitted for nonmonetary asset exchanges incurred during fiscal years beginning after the date SFAS No. 153 was issued. The adoption of the provisions of SFAS No. 153 did not have a material impact on the Company's results of operations, financial position or cash flows.

#### *Inventory Costs*

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

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

## New Accounting Standards

### *Accounting for Certain Hybrid Financial Instruments*

In February 2006, the FASB issued SFAS No. 155 *Accounting for Certain Hybrid Financial Instruments*, which amends FASB Statements No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1, *Application of Statement 133 to Beneficial Interests in Securitised Financial Assets*.

SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133, establishes a requirement to evaluate interests in securitised financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation and clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. SFAS No. 155 amends Statement 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. These provisions of SFAS No. 155 are effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after 15 September 2006.

The adoption of the provisions of SFAS No. 155 is not expected to have an impact on the Company's results of operations, financial position or cash flows.

### *Accounting Changes and Error Corrections*

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, which is a replacement of Accounting Principles Board ("APB") Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Changes in Interim Financial Statements*. SFAS No. 154 applies to all voluntary changes in accounting principle and changes the accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. In addition, SFAS No. 154 requires that a change in method of depreciation, amortisation, or depletion for long-lived, nonfinancial assets be accounted for as a change in accounting estimate that is effected by a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after 15 December 2005.

The impact of the adoption of the provisions of SFAS No. 154 is currently not known because no such accounting changes are anticipated.

## **4 Businesses Acquired**

### **Acquisition of Minority Interests**

In January 2005, WBD Foods acquired 10 per cent. of Sibirskoe Moloko dairy plant, a subsidiary, from minority shareholders for cash consideration of \$1,050. The purchase price in excess of fair value of net assets acquired of \$355 was recorded as goodwill. The change in minority interest related to this acquisition is presented as "Acquisitions by the Company of minority interests in subsidiaries" in Note 21.

In March and April 2004, WBD Foods acquired 6.2 per cent. of Tsaritsino Milk Plant ("TsMK"), a subsidiary, from shareholders of WBD Foods for cash consideration of \$3,406. The fair value of net assets acquired in excess of purchase price of \$939 was recorded as a reduction of the value of property, plant and equipment. The change in minority interest related to this acquisition is presented as "Acquisitions by the Company of minority interests in subsidiaries" in Note 21.

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

minority interest related to this acquisition is presented as “Acquisitions by the Company of minority interests in subsidiaries” in Note 21.

The Company made a number of other acquisitions of minority interests in certain subsidiaries during the years ended 31 December 2005, 2004 and 2003. The total cash consideration paid for these acquisitions was \$31, \$663 and \$54, respectively. The acquisitions made during 2005, 2004 and 2003 resulted in fair value of net assets acquired in excess of purchase price of \$269, \$0 and \$0, respectively, which was recorded as a reduction of the value of property, plant and equipment. Certain acquisitions of minority interests made during the year ended 31 December 2005 and 2004 resulted in goodwill of \$0 and \$78. The changes in minority interests related to these acquisitions are presented as “Acquisitions by the Company of minority interests in subsidiaries” in Note 21.

### Business Combinations

#### 2005

In July 2005, the Company acquired 100 per cent. of Experimental Baby Food Plant LLC for cash consideration of \$3,527. Experimental Baby Food Plant LLC produces baby food from raw fruits. The acquisition of Experimental Baby Food Plant LLC allows the Company to increase its product portfolio in the baby food market segment and to keep up with anticipated growth in market demand. The fair value of net assets acquired in excess of purchase price of \$2,335 was subsequently recorded as a reduction of the value of property, plant and equipment.

In July 2005, the Company acquired 66.3 per cent. of Obninsk Dairy Plant for cash consideration of \$6,365. Obninsk Dairy Plant owns several milk product brands and a milk product manufacturing facility. The acquisition of Obninsk Dairy Plant allows the Company to increase its existing product and brand portfolio and establish its presence in Kaluga region to better meet anticipated growth in the local marketplace. The cash consideration paid for this acquisition was allocated to property, plant and equipment \$2,257, intangible assets \$903, goodwill \$1,091, current assets \$2,898, less liabilities \$784.

In October 2005, the Company acquired 100 per cent. of Essentuki mineral water plant CMW (Caucasian Mineral Water) Ltd for cash consideration of \$5,505. The acquisition of Essentuki mineral water plant CMW (Caucasian Mineral Water) Ltd allows the Company to enhance its existing product and brand portfolio by developing mineral water brand “Novoessentukskaya”, expand production of mineral water “Essentuki” in plastic bottles and increase its market share in mineral water segment. Management has established the preliminary purchase price allocation taking into account all relevant information at the time of preparing these consolidated financial statements. The purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed. The cash consideration paid for this acquisition was allocated to property, plant and equipment \$2,066, goodwill \$3,442, current assets \$448 less liabilities \$451. As of 31 December 2005 the Company is awaiting additional information related to the fair value of mineral water brand “Novoessentukskaya”. Management does not expect the finalisation of this matter to have a material effect on the purchase price allocation.

In December 2005, the Company acquired 63.53 per cent. of Nazarovskoe Milk OJSC for cash consideration of \$5,167. The acquired company is one of the major condensed milk producers in Siberian and Far East regions. The acquisition of Nazarovskoe Milk OJSC allows the Company to increase its existing product and brand portfolio and establish its presence in Krasnoyarsk region that possesses a high growth potential. The cash consideration paid for this acquisition was allocated to property, plant and equipment \$4,482, goodwill \$2,007, current assets \$1,798 less liabilities \$3,120.

In December 2005, the Company acquired 100 per cent. of Pervouralsk City Dairy for cash consideration of \$119.

In April, July and September 2005, the Company acquired 100 per cent., 99.34 per cent. and 63.5 per cent. of Plemzavod Za Mir i Trud OJSC, Zaveti Ilicha and Trud farms for cash considerations of \$1,689, \$344 and \$420, respectively. The acquired farms produce raw milk. The acquisitions of Plemzavod Za Mir I Trud OJSC, Zaveti Ilicha and Trud farms allow the Company to reduce raw material expenses and become less dependable on raw milk suppliers, as well as to ensure a steady supply of raw milk to keep up with

anticipated growth in production driven by anticipated increases in market demand. The fair values of net assets acquired in excess of purchase prices of \$3,894, \$2,761 and \$1,029 were subsequently recorded as a reduction of the values of property, plant and equipment.

**2004**

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

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

**2003**

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

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

**5 Cash and Cash Equivalents**

Cash and cash equivalents as of 31 December 2005 and 2004 were comprised as follows:

	2005	2004
Rubles and other CIS currencies .....	\$91,813	\$21,042
Hard currencies.....	1,235	2,732
Cash equivalents .....	55	17
<b>Total cash and cash equivalents .....</b>	<b>\$93,103</b>	<b>\$23,7916</b>

**6 Trade Receivables, net**

Trade receivables as of 31 December 2005 and 2004 were comprised as follows:

	2005	2004
Trade receivables.....	\$65,094	\$76,141
Allowance for doubtful accounts .....	(5,126)	(13,931)
<b>Total trade receivables, net .....</b>	<b>\$59,968</b>	<b>\$62,210</b>

## Notes to Consolidated Financial Statements

The movement in the allowance for doubtful accounts for the years ended 31 December 2005, 2004 and 2003 was as follows:

	2005	2004	2003
Balance, beginning of period .....	\$13,931	\$11,455	\$2,737
Provision for doubtful accounts.....	3,908	3,722	10,220
Write off of trade receivables .....	(12,358)	(1,938)	(1,361)
Currency translation adjustment .....	(355)	692	(141)
<b>Balance, end of period .....</b>	<b>\$5,126</b>	<b>\$13,931</b>	<b>\$11,455</b>

### 7 Inventory

Inventory as of 31 December 2005 and 2004 was comprised as follows:

	2005	2004
Raw materials .....	\$83,300	\$68,921
Work in progress.....	10,749	4,846
Finished goods .....	36,548	28,272
<b>Total inventory .....</b>	<b>\$130,597</b>	<b>\$102,039</b>

Obsolescence and net realisable value expense during 2005, 2004 and 2003 amounted to \$1,077, \$3,482 and \$2,100, respectively, and was included in cost of sales in the accompanying consolidated statements of income.

### 8 Net Investment in Direct Financing Leases

Commencing from 1999, the Company announced a program called "Dairy Rivers of Russia" with the purpose of ensuring a steady and reliable source of milk. Under this program the Company acquired agricultural equipment and leased such equipment to several farms. These transactions were classified as direct financing leases. The lease agreements vary from one to five years and provide a free of charge equipment transfer option at the end of the lease term. The lease receivables are denominated in EURO, U.S. dollars and Russian rubles. The lessees have the option to settle the receivable through the delivery of milk supplies to the Company based on a predetermined schedule. The settlement is based on milk prices which are variable dependent upon prevailing market prices.

The following lists the components of the net investment in direct financing leases at 31 December 2005 and 2004:

	2005	2004
Total future minimum lease payments.....	\$6,375	\$6,458
Less: Unearned income .....	(968)	(454)
<b>Net investment in direct finance leases .....</b>	<b>\$5,407</b>	<b>\$6,004</b>
Current portion.....	2,335	2,109
Long-term portion.....	3,072	3,895

## Notes to Consolidated Financial Statements

At 31 December 2005, total future minimum lease payments to be received for each of the five succeeding fiscal years are as follows:

	Years ended 31 December
2006 .....	\$2,815
2007 .....	2,207
2008 .....	881
2009 .....	361
2010 .....	\$111

### 9 Intangible Assets

Identifiable intangible assets as of 31 December 2005 and 2004 were comprised as follows:

	2005		2004	
	Gross carrying amount	Accumulated amortisation	Gross carrying amount	Accumulated amortisation
Intangible assets with determinable lives:				
Financial accounting software .....	\$3,302	\$(228)	\$2,860	\$(85)
Trademarks .....	2,369	(456)	248	(184)
Supplier contracts.....	1,602	(1,079)	1,626	(794)
Others .....	825	(21)	661	(97)
Intangible assets with indefinite lives:				
Trademarks .....	764	—	792	—
Total intangible assets .....	<u>\$8,862</u>	<u>\$(1,784)</u>	<u>\$6,187</u>	<u>\$(1,160)</u>

Financial accounting software and supplier contracts have a weighted average useful life of five years, and trademarks have a useful life of two to ten years.

Amortisation expense during the years ended 31 December 2005, 2004 and 2003 amounted to \$752, \$445 and \$571, respectively.

Amortisation expense relating to the net carrying amount of intangible assets at 31 December 2005 is estimated to be \$1,096 in 2006, \$1,088 in 2007, \$912 in 2008, \$892 in 2009 and \$670 in 2010.

### 10 Property, Plant and Equipment

The net book value of property, plant and equipment at 31 December 2005 and 2004 was comprised as follows:

	2005	2004
Buildings .....	\$141,003	\$117,095
Machinery and equipment.....	450,221	406,246
Computer hardware .....	15,597	13,606
Other .....	50,305	39,367
Gross book value of property, plant and equipment .....	657,126	576,314
Accumulated depreciation .....	(239,305)	(180,421)
Advances paid for property, plant and equipment.....	10,898	11,903
Construction in progress and equipment for installation.....	30,808	29,524
Total property, plant and equipment, net .....	<u>\$459,527</u>	<u>\$437,320</u>

The Company capitalised interest costs of \$410, \$972, and \$1,741 during the years ended 31 December 2005, 2004 and 2003, respectively, with respect to qualified construction projects.

Depreciation expense during the years ended 31 December 2005, 2004 and 2003 amounted to \$52,683, \$43,558, and \$30,209, respectively.

The assets transferred to the Company upon privatisation do not include the land on which the Company's factories and buildings, comprising the Company's principal manufacturing facilities, are located. The Company has the option to purchase this land upon application to the state registrar body or to continue occupying this land under rental agreements. Russian legislation does not specify an expiry date to this option. As at 31 December 2005 the Company has not filed any application to exercise the purchase option.

In 2005, the Company formally adopted plans to dispose of certain property, plant, and equipment with a carrying value of \$10,814. The decision to dispose of such assets is seen as beneficial for the Company since the cost of managing those assets outweighs the benefits gained. The assets will likely be disposed of in 2006 by sale. These assets were not classified as assets held for sale because as of 31 December 2005, it has been determined that they do not meet the definition of a disposal group as defined by SFAS 144.

## 11 Goodwill

The movement of goodwill for the years ended 31 December 2005 and 2004 comprised:

Balance at 31 December 2002 .....	\$19,885
Acquisitions .....	3,113
Currency translation adjustment.....	1,697
Balance at 31 December 2003 .....	\$24,695
Acquisitions .....	78
Currency translation adjustment.....	1,518
<b>Balance at 31 December 2004 .....</b>	<b>\$26,291</b>
Acquisitions .....	7,188
Impairment loss .....	(546)
Currency translation adjustment.....	(925)
<b>Balance at 31 December 2005 .....</b>	<b>\$32,008</b>

## 12 Long-Term Investments

At 31 December 2005 and 2004 the Company had the following direct investments in Russian companies:

	2005		2004	
	Ownership	Amount	Ownership	Amount
Albumin .....	—	—	40.6%	\$1,433
Other .....	various	138	various	984
Total long-term investments .....		\$138		\$2,417

The investment in Albumin, an open joint-stock company, was disposed of in 2005.

**13 Other Non-Current Assets**

Other non-current assets at 31 December 2005 and 2004 were comprised as follows:

	2005	2004
Notes issuance expenses, net of amortisation .....	\$2,456	\$3,069
Advance for further step acquisition of minority interest in Moscow Baby Food Plant ("ZDMP") .....	1,566	—
Advance for further step acquisition of minority interest in Obninsk Dairy Plant .....	1,350	—
Advance for further step acquisition of minority interest in Sibirskoye Moloko dairy plant.....	133	1,057
Advance for acquisition of farms .....	120	376
Other .....	528	1,004
<b>Total other assets .....</b>	<b>\$6,153</b>	<b>\$5,506</b>

**14 Accrued Liabilities**

Accrued liabilities at 31 December 2005 and 2004 were comprised as follows:

	2005	2004
Payroll related accruals .....	\$11,200	\$9,604
Interest accruals .....	3,154	2,737
Other accruals.....	2,717	2,350
<b>Total accrued liabilities .....</b>	<b>\$17,071</b>	<b>\$14,691</b>

**15 Short-Term and Long-Term Loans**

Short-term loans at 31 December 2005 and 2004 comprised the following:

	2005			2004		
	No. of loans	Amount	Weighted average interest rate	No. of loans	Amount	Weighted average interest rate
EURO denominated .....	—	\$—	—	3	\$739	4.23%
ruble-denominated.....	22	19,219	10.29%	12	16,815	10.68%
U.S. \$ denominated .....	3	335	7.92%	—	—	—
<b>Total short-term loans.....</b>		<b>\$19,554</b>			<b>\$17,554</b>	

## Notes to Consolidated Financial Statements

Long-term loans at 31 December 2005 and 2004 comprised the following:

	2005			2004		
	No. of loans	Amount	Weighted average interest rate	No. of loans	Amount	Weighted average interest rate
U.S. \$ denominated .....	1	\$677	6.59%	3	\$1,809	4.11%
EURO denominated .....	2	3,144	4.86%	2	6,201	5.63%
ruble-denominated.....	5	1,826	14.50%	1	46	10.00%
Total amount of long-term borrowings .....		5,647			8,056	
Less current portion of long-term loans .....	—	(3,823)	—	—	(936)	—
<b>Total long-term loans .....</b>		<u>\$1,824</u>			<u>\$7,120</u>	

### Guarantees

The Company's line of credit with ING-Bank (Eurasia), in the amount of \$677, was guaranteed by a supplier of property, plant and equipment and ING Bank N.V.

At 31 December 2005 and 2004, WBD Foods and certain other major subsidiaries guaranteed certain short-term and long-term bank loans received by other subsidiaries of WBD Foods. The aggregate amount of such guarantees equalled the carrying amount of the respective short-term and long-term loans.

### Maturity of Long-Term Loans

The maturities of long-term loans outstanding at 31 December 2005 was as follows:

	Years ended 31 December
2006 .....	3,823
2007 .....	913
2008 .....	468
2009 .....	443
<b>Total long-term loans .....</b>	<u>5,647</u>

### Collateral

Certain of the Company's inventory, property, plant and equipment served as collateral for the short-term and long-term loans from International Moscow Bank, ING-Bank (Eurasia) and Sberbank.

At 31 December 2005 and 2004 the assets that served as collateral consisted of the following:

- Inventory in the amounts of \$ 3,433 and \$7,133, respectively;
- Property, plant and equipment with a net book value of \$9,381 and \$50,585, respectively.

**16 Short-Term and Long-Term Notes Payable**

Notes payable issued by WBD Foods at 31 December 2005 and 2004 comprised the following:

Maturity	Currency	2005	2004
Short-term notes .....	Ruble	\$49,794	\$—
		49,794	—
Long-term notes.....	U.S.\$	\$150,000	\$150,000
	Ruble	104,230	51,709
Total long-term notes.....		\$254,230	\$201,709

**WBD Foods U.S.\$ Notes**

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

Nine of WBD Foods’ subsidiaries unconditionally, irrevocably, jointly and severally guarantee its obligation under the Loan. The loan agreement contains a number of covenants including requirements to maintain certain financial ratios.

**WBD Foods Ruble Notes**

On 15 April 2003, WBD Foods issued 1,500,000 non-convertible ruble-denominated notes at a face value of 1,000 rubles each. The offering raised a total of 1,500,000 thousand rubles (\$52,115 at the exchange rate as of 31 December 2005 of which \$ 2,321 have been repaid as of 31 December 2005). The notes are redeemable by WBD Foods on 11 April 2006. The interest rate for the years ending 31 December 2005 and 31 December 2004 was 10.78 per cent. and 8.48 per cent., respectively. Interest rates for subsequent coupon periods are subject to change due to changes in the Consumer Price Index, published by the State Statistical Committee of the Russian Federation, in comparison with the appropriate period of the prior year. Interest is payable semi-annually in arrears commencing on 14 October 2003. In accordance with the notes issuance terms, there are a number of covenants including requirements to maintain certain financial ratios.

On 21 December 2005, WBD Foods issued 3,000,000 non-convertible ruble-denominated notes at a face value of 1,000 rubles each. The offering raised a total of 3,000,000 thousand rubles (\$104,230 at the exchange rate as of December 31 2005). The notes are redeemable by WBD Foods on 15 December 2010. The interest rate of the coupon is 9 per cent. Interest is payable semi-annually in arrears commencing on 21 June 2006.

**17 Other Payables**

Other payables primarily represent payables for property, plant and equipment and were comprised as follows as of 31 December 2005 and 2004:

	2005	2004
<b>Other payables for property, plant and equipment:</b>		
Current payables .....	\$5,493	\$7,028
Vendors financing obligations, including		
– current portion .....	15,769	16,598
– long-term portion .....	26,652	39,251
	<u>47,914</u>	<u>62,877</u>
<b>Other payables:</b>		
Current payables .....	8,938	5,989
Long-term payables, including		
– current portion .....	—	—
– long-term portion .....	241	43
	<u>9,179</u>	<u>6,032</u>
Total other payables .....	57,093	68,909
Less current liabilities .....	(30,200)	(29,615)
<b>Total other long-term payables .....</b>	<u>\$26,893</u>	<u>\$39,294</u>

The Company has agreements with suppliers of equipment which provide financing for the periods ranging from one to nine years. As of 31 December 2005 and 2004, vendor financing obligations were \$29,677 and \$40,378, respectively, Euro 10,050 thousand and Euro 10,657 thousand (equivalent to \$11,937 and \$14,521 as of 31 December 2005 and 2004, respectively) 23,225 thousand rubles and 26,346 thousand rubles (equivalent to \$807 and \$950 as of 31 December 2005 and 2004, respectively). This financing is provided at interest rates of LIBOR plus 1.5 per cent., EURIBOR plus 1.5 per cent. and 16.0 per cent. for U.S. dollar, Euro and ruble-denominated contracts, respectively. The majority of equipment financing is provided by one supplier. At 31 December 2005 and 2004, property, plant and equipment amounting to \$47,728 and \$59,681, respectively, served as collateral under these financing agreements.

The maturity of vendors financing obligations and other long-term payables outstanding at 31 December 2005 was as follows:

	Years ended 31 December
2006 .....	\$15,769
2007 .....	12,848
2008 .....	7,585
2009 .....	5,729
2010 .....	569
Thereafter .....	162
Total maturity of other long-term payables .....	<u>42,662</u>
Less current portion of other long-term payables .....	(15,769)
<b>Total other long-term payables .....</b>	<u>\$26,893</u>

**18 Income Tax**

WBD Foods' provision for income taxes for the years ended 31 December 2005, 2004 and 2003 was as follows:

	2005	2004	2003
Current income tax provision .....	\$27,385	\$18,189	\$14,866
Deferred income tax charge/(benefit) .....	3,327	(6,019)	(4,149)
<b>Total provision for income taxes .....</b>	<u>\$30,712</u>	<u>\$12,170</u>	<u>\$10,717</u>

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

Foreign current income tax provisions for the years ended 31 December 2005, 2004 and 2003 were \$700, \$534 and \$568, respectively. Foreign deferred income tax charge/(benefit) for the years ended 31 December 2005, 2004 and 2003 were \$637, (\$1,255) and (\$1,137), respectively.

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

	2005	2004	2003
Income before provision for income taxes .....	\$64,627	\$38,305	\$33,882
Russian statutory tax rate .....	24%	24%	24%
Theoretical tax provision at statutory rate.....	15,510	9,193	8,132
Tax effect of expenses not deductible for national statutory taxation purposes .....	12,341	6,232	3,345
Tax effect of income not taxable for national statutory taxation purposes .....	(974)	(248)	(304)
Tax effect of income tax privileges relating to small business enterprises benefit .....	(275)	(1,278)	(2,981)
Tax effect of income tax at different rates .....	470	550	494
Increase (decrease) in valuation allowance.....	2,609	(2,258)	2,481
Tax effect of other .....	1,031	(21)	(450)
<b>Actual provision for income taxes .....</b>	<u>\$30,712</u>	<u>\$12,170</u>	<u>\$10,717</u>

The income tax benefit for small enterprises was abolished as of 1 January 2002 and continued to be available to enterprises that were established before 1 July 2001. Such enterprises were exempt from income taxes for the first two years of operations and in the third and fourth years income taxes were levied at a rate of 25 per cent. and 50 per cent. of the income tax rate, respectively. Starting from 1 January 2002 the Company's juice production primarily concentrated in two small enterprises, Fruit Rivers and Nectarin, which were registered in March and April 2001, respectively. These WBD Foods subsidiaries utilised small business enterprises income tax benefits until 31 March 2005.

Unused credits, such as profit tax privileges, may not usually be carried forward under Russian tax legislation. Accordingly, tax credits are reflected in the Company's consolidated financial statements only to the extent and in the year in which the credits are utilised.

## Notes to Consolidated Financial Statements

Temporary differences between the tax bases of assets and liabilities and the respective carrying amounts in these consolidated financial statements give rise to the following deferred tax assets and liabilities at 31 December 2005 and 2004:

	2005	2004
<b>Deferred tax assets/(liabilities) arising from tax effect of:</b>		
Losses carried forward .....	\$10,486	\$7,055
Intangible assets .....	1,058	594
Property, plant and equipment .....	4,359	4,074
Net investments in direct financing leases .....	1,297	1,597
Allowance for doubtful accounts .....	3,557	3,437
Obsolescence and net realisable value inventory write off and other accrued liabilities .....	1,729	1,362
Payroll related accruals .....	907	217
Other .....	896	387
Gross deferred tax asset .....	24,289	18,723
Less valuation allowance for deferred tax asset.....	(7,467)	(4,858)
Deferred tax asset net of valuation allowance .....	16,822	13,865
Intangible assets .....	(1,451)	(54)
Property, plant and equipment .....	(14,357)	(8,523)
Net investments in direct financing leases .....	(1,114)	(871)
Bonds issuance costs .....	(589)	(737)
Other .....	(643)	(682)
Gross deferred tax liability .....	(18,154)	(10,867)
<b>Net deferred tax (liability)/asset .....</b>	<b>\$(1,332)</b>	<b>\$2,998</b>
Analysed as to:		
Current deferred tax asset .....	8,750	6,265
Long-term deferred tax asset.....	5,554	7,001
Long-term deferred tax liability .....	(15,636)	(10,268)

In the context of the Company's current structure, tax losses and current tax assets of the different subsidiaries may not be set off against current tax liabilities and taxable profits of other subsidiaries and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred tax assets of one subsidiary of the Company are not offset against deferred tax liabilities of another subsidiary. As at 31 December 2005 and 2004, a valuation allowance has been recorded for deferred tax assets in the amounts of \$7,467 and \$4,858, respectively as it is not more likely than not that sufficient taxable profit will be available to offset the deductible temporary differences to which these assets relate.

For statutory income tax purposes, WBD Foods and its subsidiaries had accumulated tax losses of \$40,372 which may be carried forward for use against future taxable income, of which \$4,951, \$5,499, \$13,086 and \$16,836 expire in the period 2006-2012, 2013, 2014 and 2015, respectively. The use of accumulated tax losses of the Russian subsidiaries is restricted to a maximum of 50 per cent. of taxable income per annum for the year 2006, and fully usable starting from the year 2007.

### 19 Government Grants

In 1993-1999 ZDMP received capital grants from the Russian and Moscow Governments. These grants related to the acquisition of property, plant and equipment for baby food production and are recognised in the consolidated statements of income in the period in which the depreciation expense on the related property, plant and equipment is incurred. The conditions of the grants are that ZDMP must continue to use the related property, plant and equipment for baby food production. Management believes that it has complied with this condition and will continue to comply in the future.

The movement in capital government grants during the years ended 31 December 2005 and 2004 comprised:

Balance at 31 December 2003 .....	\$9,246
Amortisation.....	(2,243)
Currency translation adjustment.....	482
	<hr/>
Balance at 31 December 2004 .....	\$7,485
Amortisation.....	(2,107)
Currency translation adjustment.....	15
	<hr/>
Balance at 31 December 2005 .....	<u>\$5,393</u>

Grants are amortised once the related property, plant and equipment are put into operation. Amortisation is reported as a reduction in the depreciation expense of the related property, plant and equipment.

During the year ended 31 December 2005 and 2004, WBD Foods received operating grants from the Russian Government and Moscow City Government in the amount of \$276 and \$687, respectively.

These grants related to interest rates on loans used for acquisition of milk and other raw materials, and are recognised in the consolidated statements of income in the period in which the related interest expense is incurred. The grants were provided at one half of the Central Bank of Russia interest rate (equating to 12 per cent. at 31 December 2005) or in a fixed amount approximating to half of the interest expense. The conditions of the grants are that WBD Foods must use the related loans received from Russian banks for the acquisition of milk and other raw materials.

## **20 Shareholders' Equity**

In accordance with Russian corporate laws, earnings available for dividends are limited to profits, denominated in domestic currency, after certain deductions. At 31 December 2005 retained earnings of WBD Foods which are distributable under statutory legislation totalled 203 million rubles (\$7,061 at the exchange rate as at 31 December 2005).

## **21 Minority Interest**

The movement in minority interest during the years ended 31 December 2005 and 2004 comprised:

Balance at 31 December 2003 .....	\$21,168
Acquisitions by the Company of minority interests in subsidiaries.....	(8,452)
Acquisition of subsidiaries .....	342
Minority interest share in net income .....	3,161
Currency translation adjustment.....	1,108
	<hr/>
<b>Balance at 31 December 2004</b> .....	<b>\$17,327</b>
Acquisitions by the Company of minority interests in subsidiaries.....	(1,081)
Acquisition of subsidiaries .....	5,312
Minority interest share in net income .....	3,649
Currency translation adjustment.....	(588)
	<hr/>
<b>Balance at 31 December 2005</b> .....	<b><u>\$24,619</u></b>

**22 Cost of Sales**

Cost of sales for 2005, 2004, and 2003 were comprised of the following:

	2005	2004	2003
Raw materials .....	\$849,089	\$736,229	\$566,512
Personnel .....	50,040	44,293	33,040
Depreciation and amortisation.....	43,183	35,865	24,753
Utilities .....	22,583	18,593	15,646
Goods for resale .....	16,724	6,675	13,640
Other .....	20,627	20,006	11,513
<b>Total cost of sales .....</b>	<b>\$1,002,246</b>	<b>\$861,661</b>	<b>\$665,104</b>

**23 Selling and Distribution Expenses**

Selling and distribution expenses for 2005, 2004, and 2003 were comprised of the following:

	2005	2004	2003
Advertising and marketing.....	\$57,936	\$54,298	\$43,777
Personnel .....	47,665	43,831	36,562
Shipping and handling .....	52,995	45,938	31,364
Bad debt expense .....	3,908	3,722	10,220
Materials and supplies .....	10,446	8,447	7,446
Warehouse .....	9,525	8,937	4,978
Other .....	9,515	8,260	6,399
<b>Total selling and distribution expenses .....</b>	<b>\$191,990</b>	<b>\$173,433</b>	<b>\$140,746</b>

**24 General and Administrative Expenses**

General and administrative expenses for 2005, 2004, and 2003 were comprised of the following:

	2005	2004	2003
Personnel .....	\$61,830	\$53,250	\$45,281
Audit, consulting and legal fees .....	5,567	4,655	7,307
Taxes other than income tax .....	13,194	11,782	5,465
Depreciation .....	5,711	4,576	3,674
Materials and supplies .....	3,268	3,226	3,206
Communication costs .....	2,880	2,331	2,105
Rent.....	2,177	2,268	1,898
Security expenses .....	1,638	469	293
Other .....	13,377	10,259	6,744
<b>Total general and administrative expenses.....</b>	<b>\$109,642</b>	<b>\$92,816</b>	<b>\$75,973</b>

**25 Financial Income and Expenses, net**

Financial income and expense, net for 2005, 2004, and 2003 were comprised of the following:

	2005	2004	2003
Interest expense .....	\$23,388	\$22,348	\$20,903
Interest income .....	(1,569)	(1,421)	(2,921)
Currency remeasurement (gains), net.....	(1,231)	(7,673)	(4,834)
Bank charges .....	1,983	1,857	1,971
Other financial expense/(income), net .....	297	(493)	154
<b>Total financial income and expense, net .....</b>	<u><u>\$22,868</u></u>	<u><u>\$14,618</u></u>	<u><u>\$15,273</u></u>

**26 Pension Costs**

In the normal course of business, WBD Foods and its subsidiaries contribute to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred. Governmental pension contributions are included in personnel costs in the statement of income. Pension costs amounted to \$20,282, \$20,557 and \$17,498 in 2005, 2004 and 2003, respectively. WBD Foods has no other pension obligations.

**27 Segment Information**

The Company's major reportable business segments are dairy, beverages and baby food. These segments are strategic business units that produce and offer distinctive products, i.e. sterilised and pasteurised milk, yogurts, dairy desserts, and other dairy products in the dairy segment; fruit juices, nectars, juice based drinks and bottled mineral water in the beverages segment and milk and juice based baby food products in the baby food segment.

WBD Foods' accounting policy for segments is the same as that 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.

## Notes to Consolidated Financial Statements

### Operating Segment — year ended 31 December 2005

	Dairy	Beverages	Baby food	Common and corporate assets/ expenses	Intersegment receivables	Consolidated
Total sales .....	\$1,009,823	\$303,797	\$87,839	\$3	\$—	\$1,401,462
Inter segment sales .....	(2,173)	—	—	—	—	(2,173)
Sales to external customers .....	1,007,650	303,797	87,839	3	—	1,399,289
Cost of sales.....	(753,285)	(194,464)	(54,480)	(17)	—	(1,002,246)
Gross profit .....	254,365	109,333	33,359	(14)	—	397,043
Operating expenses .....	(179,099)	(88,110)	(11,593)	(30,746)	—	(309,547)
Operating income (loss) .....	75,266	21,223	21,766	(30,760)	—	87,495
Financial income and expense, net and current provision for income taxes .....	(14,663)	(6,433)	(5,050)	(24,107)	—	(50,253)
Net segment profit (loss) .....	\$60,603	\$14,790	\$16,716	\$(54,867)	\$—	\$37,242
Deferred tax (charge)/benefit .....						(3,327)
Minority interest .....						(3,649)
Net income (loss) .....						\$30,266
Total assets.....	\$572,981	\$213,009	\$70,638	\$131,964	\$(68,035)	\$920,557
Expenditure for property, plant and equipment .....	\$59,922	\$12,962	\$1,754	\$472	\$—	\$75,110
Depreciation and amortisation....	\$41,209	\$8,565	\$2,993	\$668	\$—	\$53,435

## Notes to Consolidated Financial Statements

### Operating Segment — year ended 31 December 2004

	Dairy	Beverages	Baby food	Common and corporate assets/ expenses	Intersegment receivables	Consolidated
Total sales .....	\$829,136	\$301,701	\$64,657	\$27	\$—	\$1,195,521
Inter segment sales .....	(6,230)	—	—	—	—	(6,230)
Sales to external customers .....	822,906	301,701	64,657	27	—	1,189,291
Cost of sales.....	(621,218)	(199,826)	(40,611)	(6)	—	(861,661)
Gross profit .....	201,688	101,875	24,046	21	—	327,630
Operating expenses .....	(153,950)	(86,976)	(7,266)	(26,515)	—	(274,707)
Operating income (loss) .....	47,738	14,899	16,780	(26,494)	—	52,923
Financial income and expense, net and current provision for income taxes .....	(14,472)	(3,348)	(3,862)	(11,125)	—	(32,807)
Net segment profit (loss) .....	\$33,266	\$11,551	\$12,918	\$(37,619)	\$—	\$20,116
Deferred tax (charge)/benefit .....						6,019
Minority interest .....						(3,161)
Net income (loss) .....						22,974
Total assets.....	\$544,592	\$226,084	\$56,230	\$24,671	\$(55,489)	\$796,088
Expenditure for property, plant and equipment .....	\$57,161	\$8,817	\$5,092	\$1,569	\$—	\$72,639
Depreciation and amortisation....	\$29,856	\$11,009	\$2,234	\$904	\$—	\$44,003

## Notes to Consolidated Financial Statements

### Continuing Operating Segment — year ended 31 December 2003

	Dairy	Beverages	Baby food	Common and corporate assets/expenses	Intersegment receivables	Consolidated
Total sales .....	\$619,913	\$276,025	\$45,956	\$131	\$—	\$942,025
Inter segment sales .....	(3,566)	—	—	—	—	(3,566)
Sales to external customers .....	616,347	276,025	45,956	131	—	938,459
Cost of sales.....	(451,249)	(181,650)	(31,606)	(599)	—	(665,104)
Gross profit .....	165,098	94,375	14,350	(468)	—	273,355
Operating expenses .....	(112,918)	(80,195)	(4,424)	(26,663)	—	(224,200)
Operating income (loss) .....	52,180	14,180	9,926	(27,131)	—	49,155
Financial income and expense, net and current provision for income taxes .....	(20,112)	(2,152)	(2,537)	(5,338)	—	(30,139)
Net segment profit (loss) .....	\$32,068	\$12,028	\$7,389	\$(32,469)	—	19,016
Deferred tax (charge)/benefit .....						4,149
Minority interest .....						(2,012)
Net income (loss) .....						21,153
Total assets.....	\$454,779	\$230,946	\$41,966	\$61,357	\$(45,163)	\$743,885
Expenditure for property, plant and equipment .....	\$70,078	\$33,612	\$403	\$3,093	\$—	\$107,186
Depreciation and amortisation....	\$22,266	\$5,879	\$1,324	\$1,311	\$—	\$30,780

The changes in the carrying amount of goodwill for each segment for the years ended 31 December 2005, 2004 and 2003 were as follows:

	Dairy	Beverages	Baby food	Total
Balance at December 31, 2003 .....	\$21,100	\$3,595	\$—	\$24,695
Acquisitions .....	—	78	—	78
Currency translation adjustment .....	1,298	220	—	1,518
Balance at December 31, 2004 .....	\$22,398	\$3,893	\$—	\$26,291
Acquisitions .....	3,765	3,423	—	7,188
Write-off.....	—	(546)	—	(546)
Currency translation adjustment .....	(805)	(120)	—	(925)
<b>Balance at 31 December 2005 .....</b>	<b>\$25,358</b>	<b>\$6,650</b>	<b>\$—</b>	<b>\$32,008</b>

For the years ended 31 December 2005, 2004, and 2003, approximately 92 per cent., 94 per cent., and 94 per cent. of sales were generated in and sold to customers in Russia. As of 31 December 2005, 2004 and 2003, the long-lived assets of the Company were primarily located in Russia.

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

## 28 Related Parties

### Wimm-Bill-Dann Trans

During 2005, 2004 and 2003 the Company received transportation services from Wimm-Bill-Dann Trans (“WBD Trans”), a closed joint stock company, which is a WBD Foods’ investee, amounting to approximately \$11,687, \$11,149 and \$8,616, respectively. As of 31 December 2005, 2004 and 2003 advances paid to WBD Trans in respect of transportation services amounted to \$176, \$247 and \$18, respectively.

### Perekriostok

Through 2003 one of the members of WBD Foods’ Board of Directors was also a member of the Board of Directors in Trade House “Perekriostok” (“TH”), which buys dairy and juice products from WBD Foods. Sales to TH in 2003 were \$9,066. Amount due from TH as of 31 December 2003 was \$156.

### Milk Suppliers

During 2005, 2004 and 2003 the Company purchased milk from certain milk supplying companies, which are controlled by members of the control group of shareholders, amounting to \$4,493, \$2,614 and \$900, respectively. As of 31 December 2005 and 2004 accounts payable to these milk supplying companies in respect of milk received amounted to \$134 and \$109, respectively.

### Auto-40

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

### Current Shareholders

During 2004, WBD Foods acquired 6.2 per cent. interest in TsMK from current shareholders for \$3,406 (see Note 4).

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

## 29 Commitments and Contingencies

### Property, Plant and Equipment Purchase Commitments

As of 31 December 2005, contracted expenditures for the purchase of property, plant and equipment in the period subsequent to 31 December 2005 were \$12,011, payable in 2006.

### Insurance

As of 31 December 2005, the Company had insurance coverage of \$364 million in respect of property, plant and equipment at 18 major factories. The Company had insurance for business interruption at five major facilities with total coverage of \$55 million. At 17 facilities the Company had product liability insurance with \$1 million liability coverage per facility. In January 2006 product liability insurance was increased to 23 facilities with the cumulative coverage of \$5 million. Until the Company obtains insurance coverage for an amount exceeding the carrying value of property, plant and equipment, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company’s operations and financial position.

### Taxation

In the periods prior to 1 January 2003, WBD Foods used certain tax optimisation initiatives. The Russian tax authorities may challenge these initiatives. The Company believes that the tax savings to the Company in respect of these initiatives amounted to approximately \$3.8 million. Should the Russian tax authorities question these initiatives and prove successful in their claim, they would be entitled to recover these amounts, together with penalties amounting to 20 per cent. of such amounts and interest at the rate of 1/300th of the Central Bank of Russia rate, equating to 0.04 per cent. as of 31 December 2005, for each day of delay for late payment of such amounts. Management will vigorously defend any claims that these initiatives are contrary to Russian tax law. Starting from January 2003, WBD Foods discontinued using these tax optimisation initiatives.

During the period 2002 to 31 March 2005 certain subsidiaries of WBD Foods utilised small business enterprises income tax benefits which were available under Russian income tax legislation being in force before 1 January 2002. The Company believes that the tax savings to the Company for the period 2002 to 31 March 2005 in respect of these income tax benefits amounted to approximately \$9.4 million. Should the Russian tax authorities question the appropriate use of these benefits by WBD Foods' subsidiaries for the years 2002, 2003, 2004, and January — March 2005, issue a claim and prove successful in the court, they would be entitled to recover the amount claimed, together with penalties amounting to 20 per cent. of such amount and interest at the rate of 1/300th of the Central Bank of Russia rate, equating to 0.04 per cent. as of 31 December 2005, for each day of delay for late payment of such amounts. In any case, WBD Foods' management believes that it has strong grounds on which to oppose any such claim and will vigorously defend its position.

### 30 Subsequent Events

In January 2006, WBD Foods acquired an additional 20 per cent. of Moscow Baby Food Plant ("ZDMP"), a subsidiary, from minority shareholders for cash consideration of \$6,956. The fair value of net assets acquired in excess of purchase price of \$3,568 will be recorded as a reduction of the value of intangible assets and property, plant and equipment.

---

**THE BORROWER**

Open Joint Stock Company “Wimm-Bill-Dann Foods”  
Yauzsky Boulevard 16/15  
109028 Moscow  
Russian Federation

**THE TRUSTEE**

BNY Corporate Trustee Services Limited  
One Canada Square  
London E14 5AL  
England

**PRINCIPAL PAYING AGENT AND TRANSFER AGENT**

The Bank of New York  
One Canada Square  
London E14 5AL  
England

**REGISTRAR, PAYING AGENT, LISTING AGENT AND TRANSFER AGENT**

The Bank of New York (Luxembourg) S.A.  
Aerogolf Centre  
2A, Hoehenhof  
L-1736 Senningerberg  
Grand-Duchy of Luxembourg

**LEGAL ADVISERS TO THE BORROWER**

*As to English law*  
**Latham & Watkins**  
99 Bishopsgate  
London EC2M 3XF  
England

*As to Russian law*  
**Liniya Prava**  
15a Leninsky prospect, Gorky Park tower,  
119071, Moscow  
Russian Federation

**LEGAL ADVISERS TO THE MANAGERS**

*As to English law*  
**Linklaters**  
One Silk Street  
London EC2Y 8HQ  
England

*As to Russian law*  
**Linklaters CIS**  
Paveletskaya Square 2, Building 2  
115054 Moscow  
Russian Federation

*As to Luxembourg law*  
**Elvinger, Hoss & Prussen**  
2, Place Winston Churchill  
L-2014 Luxembourg

---

---

**LEGAL ADVISERS TO THE TRUSTEE**

*As to English law*

**Linklaters**  
One Silk Street  
London EC2Y 8HQ  
England

**TAX ADVISER**

*To the Borrower as to Russian and Luxembourg tax*

**Ernst & Young**  
Sadovnicheskaya nab. 77, bld. 1,  
115035 Moscow  
Russian Federation

**AUDITORS TO THE BORROWER**

**Ernst & Young**  
Sadovnicheskaya nab. 77, bld. 1,  
115035 Moscow  
Russian Federation

**LUXEMBOURG LISTING AGENT**

**Bank of New York (Luxembourg) S.A.**  
Aerogolf Centre  
2A, Hochenhof  
L-1736 Senningerberg  
Grand-Duchy of Luxembourg

---

