WOODWARD GOVERNOR CO
Form 10-K
November 20, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended September 30, 2009

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 0-8408

WOODWARD GOVERNOR COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**36-1984010**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
1000 East Drake Road, Fort Collins, Colorado	**80525**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code:
(970) 482-5811
Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	**Name of each exchange on which registered:**
Common stock, par value $.001455 per share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

Aggregate market value of registrant s common stock held by non-affiliates of the registrant, based upon the closing price of a share of the registrant s common stock on March 31, 2009 as reported on The NASDAQ Global Select Market on that date: $620,737,035. For purposes of this calculation, shares of common stock held by (i) persons holding more than 5% of the outstanding shares of stock, (ii) officers and directors of the registrant, and (iii) the Woodward Governor Company Profit Sharing Trust, Woodward Governor Company Deferred Shares Trust, or the Woodward Governor Company Charitable Trust, as of March 31, 2009, are excluded in that such persons may be deemed to be affiliates. This determination is not necessarily conclusive of affiliate status.

Number of shares of the registrant s common stock outstanding as of November 18, 2009: 68,358,776.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our proxy statement for the 2009 Annual Meeting of Stockholders to be held January 22, 2010, are incorporated by reference into Parts II and III of this Form 10-K, to the extent indicated.

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PART I

Forward Looking Statements

This Annual Report on Form 10-K, including Management s Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and our future results within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are statements that are deemed forward-looking statements. These statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of management. Words such as anticipate, believe, estimate, seek, goal, expect, forecasts, intend, contin project, target, can, could, may, should, will, would, variations of such words, and similar expressions identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characteristics of future events or circumstances are forward-looking statements. Forward-looking statements may include, among others, statements relating to:

- *future sales, earnings, cash flow, uses of cash, and other measures of financial performance;*
- *description of our plans and expectations for future operations;*
- *the effect of economic downturns or growth in particular regions;*
- *the effect of changes in the level of activity in particular industries or markets;*
- *the availability and cost of materials, components, services, and supplies;*
- *the scope, nature, or impact of acquisition activity and integration into our businesses;*
- *the development, production, and support of advanced technologies and new products and services;*
- *new business opportunities;*
- *restructuring costs and savings;*
- *our plans, objectives, expectations and intentions with respect to recent acquisitions and expected business opportunities that may be available to us;*
- *the outcome of contingencies, including, among others, any government investigations or suspensions;*
- *future repurchases of common stock;*
- *future levels of indebtedness and capital spending; and*
- *pension plan assumptions and future contributions.*

Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict, including:

- *a decline in business with, or financial distress of, our significant customers;*
- *the continued instability in the financial markets and prolonged unfavorable economic and other industry conditions;*

our ability to obtain financing, on acceptable terms or at all, to implement our business plans, complete acquisitions, or otherwise take advantage of business opportunities or respond to business pressures;

the long sales cycle, customer evaluation process, and implementation period of our products and services;

our ability to implement, and realize the intended effects of, our restructuring efforts;

our ability to comply with the terms of the civil and criminal settlements related to the U.S. Department of Justice (DOJ) investigation of the pre-June 2005 government contract pricing practices of MPC Products Corporation (MPC Products) and the related administrative agreement with the U.S. Department of Defense (DOD);

our ability to successfully manage competitive factors, including prices, promotional incentives, industry consolidation, and commodity and other input cost increases;

our ability to reduce our expenses in proportion to any sales shortfalls;

the ability of our subcontractors to perform contractual obligations and our suppliers to provide us with materials of sufficient quality or quantity required to meet our production needs at favorable prices or at all;

the success of, or expenses associated with, our product development activities;

our ability to integrate acquisitions and costs related thereto;

our substantial debt obligations, our debt service requirements, and our ability to operate our business and pursue business strategies in the light of certain restrictive covenants contained in our outstanding debt agreements;

future impairment charges resulting from changes in the estimates of fair value of reporting units or of long-lived assets;

changes in domestic or international tax statutes and future subsidiary results;

environmental liabilities related to manufacturing activities;

our continued access to a stable workforce and favorable labor relations with our employees;

the geographical location of a portion of our business is in California, which historically has been susceptible to natural disasters;

our ability to successfully manage regulatory, tax, and legal matters (including government contracting, product liability, patent, and intellectual property matters);

risks from operating internationally, including the impact on reported earnings from fluctuations in foreign currency exchange rates, and changes in the legal and regulatory environments of countries in which we operate; and

certain provisions of our charter documents and Delaware law that could discourage or prevent others from acquiring our company.

These factors are representative of the risks, uncertainties, and assumptions that could cause actual outcomes and results to differ materially from what is expressed or forecast in our forward-looking statements. Other factors are discussed under Risk Factors in our filings with the Securities and Exchange Commission (SEC) and are incorporated herein by reference.

Therefore, actual results could differ materially and adversely from those expressed in any forward-looking statement. For additional information regarding factors that may affect our actual financial condition and results of operations, see the information under the caption Item 1A Risk Factors beginning on page ***11*** *of this Annual Report on Form 10-K for the year ended September 30, 2009. We undertake no obligation to revise or update any forward-looking statement for any reason.*

Unless we have indicated otherwise or the context otherwise requires, references in this Annual Report on Form 10-K to Woodward, the Company, we, us, and our refer to Woodward Governor Company and its consolidated subsidiaries.

Amounts presented in this Annual Report on Form 10-K are in thousands except per share amounts.

Item 1. Business

General

We are an independent designer, manufacturer, and service provider of energy control and optimization solutions for commercial and military aircraft and ground vehicles, turbines, reciprocating engines, and electrical power system equipment. Our innovative fluid energy, combustion control, electrical energy, and motion control systems help customers offer cleaner, more reliable, and more cost-effective equipment. Leading original equipment manufacturers (OEMs) use our products and services in the aerospace, power generation and distribution, and transportation markets.

Our strategic focus is energy control and optimization solutions. The control of energy, including fluid and electrical energy, combustion, and motion, is a growing requirement in the markets we serve. Our customers look to us to optimize the efficiency, emissions, and operation of power equipment in both commercial and military operations. Our core technologies leverage well across our markets and customer applications, enabling us to develop and integrate cost-effective and state-of-the-art fuel, combustion, fluid, actuation, and electronic systems. We focus primarily on OEMs and equipment packagers, partnering with them to bring superior component and system solutions to their demanding applications.

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We were established in 1870 and incorporated in 1902. We are headquartered in Fort Collins, Colorado, and serve global markets from locations worldwide. The mailing address for our headquarters is 1000 East Drake Road, Fort Collins, Colorado 80525. Our telephone number at that location is (970) 482-5811, and our website is www.woodward.com.

Products and Services

We strive to be the undisputed leader in the aerospace, power generation and distribution, and transportation markets that we serve. We help meet global needs for reliable, efficient, low-emission, and high-performance energy for diverse applications in challenging environments.

We remain focused on energy control and optimization solutions for the aerospace, power generation and distribution, and transportation markets that we serve. We design systems that manage the energy of fluid movement, motion, and electricity. We also convert wind energy into reliable and safe electrical power through converter systems.

We believe all of our business segments have a significant competitive position within their markets for components and integrated systems. We compete with several other manufacturers, including the in-house operations of certain OEMs. We believe our prices, technology, quality, and customer service are highly competitive.

Principal Lines of Business

We have four operating business segments Turbine Systems, Airframe Systems, Electrical Power Systems, and Engine Systems:

Turbine Systems develops and manufactures systems and components that provide energy control and optimization solutions for aircraft propulsion applications, including fuel and combustion systems for turbine engines, as well as industrial gas and steam turbine markets.

Airframe Systems develops and manufactures high-performance cockpit, electromechanical and hydraulic motion control systems, and mission-critical actuation systems and controls for weapons, aircraft, turbine engines, and combat vehicles, primarily for aerospace and military applications.

Electrical Power Systems develops and manufactures systems and components that provide power sensing and energy control systems that improve the security, quality, reliability, and availability of electrical power networks for industrial markets, which include the power generation, power distribution, and power conversion industries.

Engine Systems develops and manufactures systems and components that provide energy control and optimization solutions for the industrial engine markets, which include the power generation, transportation, and process industries.

To provide better focus and alignment of our business segment operations, we moved the development and manufacture of systems and components for steam turbine markets from Engine Systems to Turbine Systems in the fourth quarter of fiscal 2009. All segment information for the years ended September 30, 2008, and 2007 has been recast to reflect the realigned segment structure. The quarterly information by segment for the quarters ended December 31, 2007, March 31, 2008, June 30, 2008, December 31, 2008, March 31, 2009 and June 30, 2009 has also been recast to reflect the realigned segment structure.

Information about our operations in 2009 and outlook for the future, including certain segment information, is included in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations. Additional segment information and certain geographical information are included in Note 23. *Segment information*, and Note 24. *Supplemental Financial data (Unaudited)* to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data. Other information about our business follows.

Turbine Systems

We provide integrated fuel control and combustion systems comprising components such as electronics, fuel pumps, metering units, actuators, valves, and fuel nozzles through the Turbine Systems segment. Our customers are OEMs that manufacture gas turbines for use in aerospace propulsion and gas and steam turbines for industrial power generation and process markets.

Our aerospace services include the sales of components as provisioning spares or replacements as well as repair and overhaul services. Our service customers include commercial airlines, turbine OEM repair facilities, military depots, third party repair shops, and end users.

We primarily sell Turbine Systems industrial products and services directly to manufacturers, although we also generate some aftermarket sales through distributors, dealers, and independent service facilities.

Our major customers within the Turbine Systems segment are General Electric and United Technologies.

Airframe Systems

We provide high-performance cockpit, electromechanical and hydraulic motion control systems, and mission-critical actuation systems and controls through the Airframe Systems segment for weapons, aircraft, turbine engines and combat vehicles, primarily for aerospace and military applications. Sales are made primarily to OEMs and tier-one prime contractors.

Airframe Systems was formed on October 1, 2008 when we acquired all of the outstanding stock of Techni-Core, Inc. (Techni-Core) and all of the outstanding stock of MPC Products not owned by Techni-Core (MPC Products and Techni-Core, MPC). On April 3, 2009, we acquired all of the outstanding capital stock of HR Textron Inc. from Textron Inc., its parent company, and the United Kingdom assets and certain liabilities related to HR Textron Inc. s business (collectively HRT). On August 10, 2009, we sold the Fuel and Pneumatics product line (the F&P product line) acquired as part of the HRT acquisition. Additional information about the acquisitions of MPC and HRT and the sale of the F&P product line is included in Note 4. *Business acquisitions and dispositions,* to the Consolidated Financial Statements, in Item 8 Financial Statements and Supplementary Data.

Our major customer within the Airframe Systems segment is Boeing.

Electrical Power Systems

We provide integrated control systems and electronic control and protection modules through the Electrical Power Systems segment primarily to OEMs that manufacture electrical power generation, distribution, conversion (predominantly wind power), and grid related quality equipment using digital controls and converter technologies. Sales are made primarily to OEMs that manufacture generator sets, wind turbines, and switchgear equipment. We sell components as spares or replacements, and provide other related services to these OEMs and other customers. We also provide repair and overhaul services to OEM customers and equipment operators as part of the wind power side of our business.

We generally sell Electrical Power Systems products and services directly to our OEM customers, although we also generate sales to end users through distributors. Our customers demand technological solutions to meet their needs for security, quality, reliability, and availability of electrical power networks.

Our major customers within the Electrical Power Systems segment are REpower Systems AG, Nordex, and Sewind.

Engine Systems

We provide integrated control systems and control components, such as electronics, actuators, valves, pumps, injectors, and ignition systems through the Engine Systems segment primarily to OEMs that manufacture diesel and gas engines, and to distributors for use in power generation, transportation, and process applications. We also sell components as spares or replacements and provide repair and overhaul services to OEM customers and equipment operators.

To support our OEMs customers and end users, we sell Engine Systems components and services through our global channel partners (distributors, independent service facilities, and control system retrofit partners).

Our major customer within the Engine Systems segment is Caterpillar.

Backlog

Our backlog as of October 31, 2009 and 2008 by segment was as follows:

	October 31, 2009	% Expected to be filled by September 30, 2010	October 31, 2008
Turbine Systems	$ 175,053	87%	$ 165,413
Airframe Systems	424,823	63	172,749
Electrical Power Systems	56,943	90	100,856
Engine Systems	70,283	88	107,953
	$ 727,102	73%	$ 546,971

Our current estimate of the backlog is based on typically assumed relationships between the timing of firm orders and subsequent sales. Backlog orders are not necessarily an indicator of future sales levels because of variations in lead times and customer production demand pull systems.

The Airframe Systems backlog, as of October 31, 2008, has been recast from previously disclosed amounts for consistency with the accumulation methodology used by our other segments.

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Seasonality

We do not believe that our sales in any business segment are subject to significant seasonal variation.

Customers

Our largest customers include Boeing, Caterpillar, Sewind, General Electric, Nordex, REpower Systems AG, and United Technologies.

One customer, General Electric, accounted for 10% or more of consolidated net sales in each of the years ended September 30, 2009, 2008, and 2007. Another customer, Caterpillar, accounted for 10% or more of consolidated net sales in each of the years ended September 30, 2008 and 2007. Sales to General Electric were made by all of our segments and totaled approximately 17% in fiscal 2009, 17% in fiscal 2008, and 20% in fiscal 2007. Sales to Caterpillar were made by three of our segments and totaled approximately 5% in fiscal 2009, down from 10% in fiscal 2008 and 10% in fiscal 2007.

Our accounts receivable from General Electric represented approximately 15% of total accounts receivable as of September 30, 2009 and 20% as of September 30, 2008. We believe General Electric is a credit worthy customer and will be able to satisfy its credit obligations to us.

Government Contracts and Regulation

Our businesses, and in particular our Airframe Systems business, are heavily regulated in many of our fields of endeavor. We deal with numerous U.S. government agencies and entities, including all of the branches of the U.S. military, the National Aeronautics and Space Administration (NASA), and the Departments of Defense, Homeland Security, and Transportation. Similar government authorities exist with respect to our international efforts.

The U.S. government, and other governments, may terminate any of our government contracts (and, in general, subcontracts) at their convenience, as well as for default based on specified performance measurements. If any of our government contracts were to be terminated for convenience, we generally would be entitled to receive payment for work completed and allowable termination or cancellation costs. If any of our government contracts were to be terminated for default, the U.S. government generally would pay only for the work accepted, and could require us to pay the difference between the original contract price and the cost to re-procure the contract items, net of the work accepted from the original contract. The U.S. government could also hold us liable for damages resulting from the default.

We must comply with, and are affected by, laws and regulations relating to the formation, administration, and performance of U.S. government contracts. These laws and regulations, among other things:

- require certification and disclosure of all cost or pricing data in connection with certain contract negotiations;
- impose specific and unique cost accounting practices that may differ from accounting principles generally accepted in the United States (U.S. GAAP) and therefore require reconciliation;
- impose acquisition regulations that define allowable and unallowable costs and otherwise govern our right to reimbursement under certain cost-based U.S. government contracts; and
- restrict the use and dissemination of information classified for national security purposes and the export of certain products and technical data.

Sales made directly to U.S. government agencies and entities were 5% of total net sales during fiscal 2009, 5% during fiscal 2008 and 6% during fiscal 2007, primarily in the aerospace and defense markets. Sales made directly to U.S. government agencies and entities, or indirectly through third party manufacturers utilizing Woodward parts and subassemblies, accounted for approximately 20% of total sales in fiscal 2009, 14% in fiscal 2008 and 18% in fiscal 2007. The increase in direct and indirect sales to the U.S. government in fiscal 2009 was driven by the acquisitions of MPC and HRT, whose sales are more reliant on U.S. government procurement programs than our traditional product lines.

Research and Development

We conduct research and development activities under customer-funded contracts and with our own independent research and development funds. Our research and development costs include basic research, applied research, development, systems and other concept formulation studies. Costs related to specific customer development programs are potentially inventoried and charged to costs depending on the contractual arrangements. Company-sponsored independent development costs are charged to expenses when incurred. Under certain arrangements in which a customer shares in product development costs, our portion of the unreimbursed costs is generally expensed as incurred. Across all our segments, total research and development costs, including costs related to bid and proposal efforts, totaled $78,536 in fiscal 2009, $73,414 in fiscal 2008 and $65,294 in fiscal 2007. See Research and development costs in Note 1. *Operations and summary of significant accounting policies,* to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data.

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Manufacturing

Our products consist of mechanical, electronic, and electromagnetic components. Mechanical components are machined primarily from aluminum, iron, and steel. Generally there are numerous sources for the raw materials and components used in our products, and they are believed to be sufficiently available to meet current requirements. We carry certain finished goods and component parts in inventory to meet rapid delivery requirements of customers, primarily for aftermarket needs. We also purchase various goods and services used in production, logistics, and product development processes. We maintain global strategic sourcing models to meet our global facilities production needs while building long-term supplier relationships and leveraging enterprise spend. We expect our suppliers to maintain, at all times, competitive levels of quality and delivery of raw materials and component products supplied for our machine and engine products. We use a variety of agreements with suppliers intended to protect our intellectual property and processes to monitor and mitigate risks of the supply base causing a business disruption. The risks monitored include supplier financial viability, business continuity, quality and delivery.

Competitive Environment

Our products and product support services are sold worldwide into a variety of competitive markets. In all markets, we compete on the basis of technology, product performance, customer service, quality, price, reputation, and local presence.

Aerospace and Defense

The aerospace and defense industry involves significant product certification requirements, which forms a basis of competition as well as a barrier to entry. While the industry competes on the basis of all of the factors mentioned above, product quality is of significant importance in the aerospace and defense industry.

Our customers include airframe manufacturers and suppliers to these manufactures. We supply these customers with technological innovation and system solutions. We align our technology roadmaps with our customers, and focus on responding to needs for cost, weight, and reliability improvements. We believe we have developed efficient manufacturing and assembly processes that deliver products on-time to customer demand. Our products achieve high levels of field reliability, which we believe offers an advantage in life-cycle cost. Our competitors in aerospace and defense include divisions of Hamilton Sundstrand, Goodrich, Honeywell, Moog, and Parker Hannifin.

In both Turbine Systems and Airframe Systems segments, several competitors are also customers for our products, such as Hamilton Sundstrand, Parker, and Honeywell. Some of our competitors are captive to customers through ownership or joint venture agreement. We compete in part by establishing relationships with our customers engineering organizations, and by offering innovative solutions to their market problems.

Reciprocating Engines and Industrial Turbines

We compete with numerous companies around the world who specialize in fuel and air management, combustion, and electronic control products in many segments of the industrial engine and turbine business. Also, our OEM customers frequently are capable of developing and manufacturing these same products internally.

Our competitors offer a broad range of engine and turbine management technologies, including actuators, electronic controls, fuel injection equipment and engine emissions controls.

Competitors include Heinzmann GmbH & Co., KG, Robert Bosch AG, L Orange GmbH, and Hoerbiger. OEMs with internal capabilities for similar products include General Electric, Caterpillar, and Cummins.

Wind

Our Wind market segment has competition from both wind turbine OEM s with converter capabilities and from independent converter manufacturers. Independent converter manufacturing competitors include ABB, Converteam, IDS, Schneider, and American Superconductor. In addition to the competitive factors noted above, the ability to service product on a global scale is important to our customers.

Electrical Power Generation and Distribution

We compete with a large number of companies in the electrical power generation and distribution business. Our power generation and distribution competitors range from many small to medium sized companies that mainly operate regionally. Regional competitors include companies such as Wexler, Comap, Deep Sea, Murphy, Datakom. Other companies such as GE Multlin, ABB, Siemens, Toshiba and Areva compete on a global scale.

Employees

As of October 31, 2009, we employed 5,660 full-time employees of which 1,381 were located outside of the U.S. We consider the relationships with our employees to be positive.

1,258 full-time employees joined Woodward in connection with the acquisition of MPC and 57 full-time employees in connection with the acquisition of MotoTron Corporation (MotoTron) in October 2008. In April of 2009, 917 employees joined Woodward in connection with the acquisition of HRT.

As a result of our acquisitions of MPC and HRT, approximately 15% of our total workforce were union employees as of October 31, 2009, all of whom are either at MPC or HRT. Our agreements with our union employees are renewed through contract renegotiation near the contract expiration dates. The Woodward MPC Employees Representative Union contract expires September 30, 2013. The International Association of Machinists and Aerospace Workers contract with HRT expires April 18, 2010. We believe our relationships with our employees and the representative unions are generally good.

In the U.S., as of October 31, 2009, all of our employees were at-will employees. Generally, our employees are not subject to any type of employment contract or agreement. Certain MPC employees who are not executive officers of Woodward had pre-existing employment agreements with MPC prior to the MPC acquisition. In addition, our Chief Executive Officer and President and our Chief Financial Officer and Treasurer each have a Change in Control Transition Agreement.

Outside of the U.S., we enter into employment contracts and agreements in those countries in which such relationships are mandatory or customary. The provisions of these agreements correspond in each case with the required or customary terms in the subject jurisdiction.

Patents, Intellectual Property, and Licensing

Products for our segments make use of several patents and trademarks of various durations that we believe are collectively important. However, we do not consider any one patent or trademark material to our business.

Environmental Matters

The company is regulated by federal, state, and international environmental laws governing our use, transport, and disposal of substances and control of emissions. In addition to governing our manufacturing and other operations, these laws often impact the development of our products, including, but not limited to, required compliance with air emissions standards applicable to internal combustion engines. Compliance with these existing laws has not had a material impact on our capital expenditures, earnings, or global competitive position.

We are engaged in remedial activities at a number of locations, often with other companies, pursuant to federal and state laws. When it is reasonably probable we will pay remedial costs at a site, and those costs can be reasonably estimated, the costs are charged against our earnings. In formulating that estimate, we do not consider amounts expected to be recovered from insurance companies or others. The amount recorded for environmental remediation is not material and is included in the line item Accrued liabilities in the Consolidated Balance Sheets in Item 8 Financial Statements and Supplementary Data.

We cannot reasonably estimate costs at sites in the very early stages of remediation. Currently, we have a few sites in the later stages of remediation, and there is no more than a remote chance that a material amount for remedial activities at any individual site, or at all sites in the aggregate, will be required.

Executive Officers of the Registrant

Set forth below is certain information with respect to the current executive officers. There are no family relationships between any of the executive officers listed below.

Thomas A. Gendron, Age 48. Chairman of the Board since January 2008; Chief Executive Officer, President, and Director since July 2005; Chief Operating Officer and President from September 2002 through June 2005; Vice President and General Manager of Industrial Controls June 2001 through September 2002; Vice President of Industrial Controls April 2000 through May 2001; Director of Global Marketing and Industrial Controls Business Development February 1999 through March 2000.

Robert F. Weber, Jr., Age 55. Chief Financial Officer and Treasurer since August 2005. Prior to August 2005, Mr. Weber was employed at Motorola, Inc. for 17 years, where he held various positions, including Corporate Vice President and General Manager EMEA Auto. Prior to this role, Mr. Weber served in a variety of financial positions at both a corporate and operating unit level with Motorola.

Martin V. Glass, Age 52. President, Turbine Systems since October 2009; Group Vice President, Turbine Systems September 2007 through September 2009; Vice President of the Aircraft Engine Systems Customer Business Segment

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December 2002 through August 2007; Director of Sales, Marketing, and Engineering February 2000 through December 2002.

Dennis M. Benning, Age 68. President, Airframe Systems since October 2009; Group Vice President, Airframe Systems October 2008 through September 2009; Group Vice President, Engine Systems September 2007 through September 2008; Vice President, Center of Excellence Industrial Controls December 2002 through August 2007; General Manager, Center of Excellence Industrial Controls July 2002 through November 2002; Director of Operations, Aircraft Engine Systems January 2002 through June 2002.

Gerhard Lauffer, Age 48. President, Electrical Power Systems since October 2009; Group Vice President, Electrical Power Systems September 2007 through September 2009; Vice President and General Manager Electronic Controls March 2002 through August 2007; Managing Director Leonhard-Reglerbau GmbH 1991 through March 2002 when it was acquired by Woodward.

Chad R. Preiss, Age 44. President, Engine Systems since October 2009; Group Vice President, Engine Systems October 2008 through September 2009; Vice President, Sales, Service, and Marketing, Engine Systems December 2007 through September 2008; and Vice President, Industrial Controls September 2004 through December 2007. Prior to this role, Mr. Preiss served in a variety of engineering and marketing/sales management roles, including Director of Business Development, since joining Woodward in 1988.

A. Christopher Fawzy, Age 40. Corporate Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer since October 2009; Vice President, General Counsel, and Corporate Secretary June 2007 through September 2009. Mr. Fawzy became the Company s Chief Compliance Officer in August 2009. Prior to joining Woodward, Mr. Fawzy was employed by Mentor Corporation, a global medical device company. He joined Mentor in 2001 and served as Corporate Counsel, then General Counsel in 2003, and was appointed Vice President, General Counsel and Secretary in 2004.

Harlan G. Barkley, Age 56. Corporate Vice President, Information Technology since October, 2009; Vice President, Information Technology April 2009 through September 2009; Director, Global Information Technology from November 2002 through March 2009; Prior to joining Woodward in October 1999, Mr. Barkley was employed by Sundstrand Corporation/Hamilton Sundstrand for 19 years in a variety of leadership roles in information technology.

Steven J. Meyer, Age 49. Corporate Vice President, Human Resources since October 2009; Vice President, Human Resources from November 2006 through September 2009; Director, Global Human Resources from November 2002 Through October 2006; Director, Human Resources for Industrial Controls from July 1997 through October 2002. Prior to joining Woodward, Mr. Meyer was employed by PG&E Corporation and Nortel in a variety of roles in human resources.

James D. Rudolph, Age 48. Corporate Vice President, Sourcing since October 2009; Vice President, Global Sourcing from April 2009 through October 2009; Director of Global Sourcing from April 2005 through April 2009; Director of Engineering for Industrial Controls from March 2000 through April 2005; Prior to this role Mr. Rudolph served in a variety of engineering, operations and sales roles since joining the company in 1984.

Information available on Woodward s Website

Through a link on the Investor Information section of our website, www.woodward.com, we make available the following filings as soon as reasonably practicable after they are electronically filed or furnished to the SEC: our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. Stockholders may obtain, without charge, a single copy of Woodward s 2009 Annual Report on Form 10-K upon written request to the Corporate Secretary, Woodward Governor Company, 1000 East Drake Road, Fort Collins, Colorado 80525.

Item 1A. Risk Factors

Investment in our securities involves risk. An investor or potential investor should consider the risks summarized in this section when making investment decisions regarding our securities.

Important factors that could individually, or together with one or more other factors, affect our business, results of operations, financial condition, and/or cash flows include, but are not limited to, the following:

Company Risks

A decline in business with, or financial distress of, our significant customers could decrease our consolidated net sales or impair our ability to collect amounts due and payable and have a material adverse effect on our business, financial condition, results of operations and cash flows.

We have fewer customers than many companies with similar sales volumes. For the year ended September 30, 2009, approximately 38% of our consolidated net sales were made to our five largest customers. Sales to these same five largest customers represented approximately 43% of our consolidated net sales for the year ended September 30, 2008. Sales to General Electric accounted for approximately 17%, 17%, and 20% of consolidated net sales in each of the years ended September 30, 2009, 2008, and 2007, respectively, and accounts receivable from General Electric represented approximately 15% and 20% of accounts receivable at September 30, 2009 and 2008, respectively. Sales to Caterpillar accounted for approximately 5%, 10%, and 10% of consolidated net sales in each of the years ended September 30, 2009, 2008, and 2007, respectively. Accounts receivable from Caterpillar were not material at September 30, 2009 and 2008. If any of our significant customers were to change suppliers, in-source production, institute significant restructuring or cost-cutting measures, or experience financial distress, including that which is a result of the prolonged economic downturn and continued instability in the financial markets, these significant customers may substantially reduce or otherwise be unable to pay for purchases from us. Accordingly, our consolidated net sales could decrease significantly or we may experience difficulty collecting or be unable to collect amounts due and payable, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

The continued instability in the financial markets and prolonged unfavorable economic conditions could have a material adverse effect on the ability of our customers to perform their obligations to us and on the demand for our products and services.

There has been widespread concern over the continued instability in the financial markets and their influence on the global economy. As a result of the extreme volatility in the credit and capital markets, and other prolonged economic challenges currently affecting the global economy, our current or potential customers may experience cash flow problems and, as a result, may modify, delay or cancel plans to purchase our products. Additionally, if customers are not successful in generating sufficient revenue or are precluded from securing necessary financing, they may not be able to pay, or may delay payment of, accounts receivable that are owed to us. Any inability of current or potential customers to pay us for our products may adversely affect our earnings and cash flows.

In addition, the general economic environment significantly affects demand for our products and services. During periods of slowing economic activity, such as the prolonged global economic downturn, a global slowdown in spending on infrastructure development may occur in the markets in which we operate, and customers may reduce their purchases of our products and services. In particular, we have experienced broad declines in net sales in our Engine Systems segment in the transportation and power generation markets. In addition, unfavorable economic conditions and public perceptions regarding the use of business jets have reduced demand for systems and components for new business jet aircraft and have resulted in the withdrawal from service of some commercial aircraft. Any further reduction in aircraft order flow or withdrawal from service of business jet and commercial aircraft could further reduce demand for some of our products and services.

There can be no assurance that the prolonged unfavorable economic and market conditions in the United States and internationally will not have a material adverse effect on our business, financial condition, results of operations, and cash flows.

We may not be able to obtain financing, on acceptable terms or at all, to implement our business plans, complete acquisitions, or otherwise take advantage of business opportunities or respond to competitive pressures.

Global financial markets and economic conditions have been, and continue to be, disrupted and volatile. The credit and debt and equity capital markets have been distressed. These issues, along with significant write-offs in the financial services sector, the repricing of credit risk, and the prolonged weak economic conditions have made, and will likely continue to make, it difficult to obtain financing. In addition, as a result of concerns about the stability of financial markets generally and the solvency of counterparties specifically, the cost of obtaining money from the credit markets has generally increased as many lenders and institutional investors have increased interest rates, enacted tighter lending standards, refused to refinance existing debt at maturity either at all or on terms similar to existing debt and reduced and, in some cases, ceased to provide financing to borrowers. Due to these factors, we cannot be certain that financing, to the extent needed, will be available on acceptable terms or at all. If financing is not available when needed, or is available only on unacceptable terms, we may be unable to implement our business plans, complete acquisitions, or otherwise take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

The long sales cycle, customer evaluation process and implementation period of our products and services may increase the costs of obtaining orders and reduce the predictability of sales cycles and our inventory requirements.

Our products and services are technologically complex. Prospective customers generally must commit significant resources to test and evaluate our products and to install and integrate them into larger systems. Orders expected in one quarter may shift to another quarter or be cancelled with little advance notice as a result of customers budgetary constraints, internal acceptance reviews and other factors affecting the timing of customers purchase decisions. In addition, customers often require a significant number of product presentations and demonstrations before reaching a sufficient level of confidence in the product s performance and compatibility with the approvals that typically accompany capital expenditure approval processes. The difficulty in forecasting demand increases the challenge in anticipating sales cycles and our inventory requirements, which may cause us to over-produce finished goods and could result in inventory write-offs, or could cause us to under-produce finished goods. Any such over-production or under-production could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

We have engaged in restructuring activities and may need to implement further restructurings in the future, and there can be no assurance that our restructuring efforts will have the intended effects.

From time to time, we have responded to changes in our industry and the markets we serve by restructuring our operations. We have previously disclosed non-acquisition related restructuring changes recorded primarily as a result of workforce management and other restructuring changes related to our recently acquired businesses, including, among others, changes associated with integrating similar operations, managing our workforce, vacating or consolidating certain facilities and cancelling certain contracts. Restructuring activities can create unanticipated consequences, and we cannot be sure that any or all of these restructuring efforts will be successful. There can be no assurance that the reductions in sites, workforce management and other cost-cutting measures will have the effect currently expected by our management or that they will not harm our future business operations and prospects. A variety of risks could cause us not to realize the expected cost savings, including, among others, the following:

- higher than expected severance costs related to staff reductions;
- higher than expected retention costs for employees that will be retained;
- higher than expected stand-alone overhead expenses;
- delays in the anticipated timing of activities related to our cost-saving plan; and
- other unexpected costs associated with operating the business.

We also cannot be certain that we will not be required to implement further restructuring activities or make additions, reductions or other changes to our management or workforce based on other cost reduction measures or changes in the industry and markets in which we compete. If we are unable to structure our operations in the light of our recently acquired businesses and evolving market conditions, it could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Additional fines, sanctions, suspensions or debarment may result from our inability to comply with the terms of the MPC Products plea agreement, probation or administrative agreement could have a material adverse effect on us.

MPC Products, one of our recently acquired subsidiaries, has been subject to an investigation by the DOJ regarding certain of its government contract pricing practices prior to June 2005, and related administrative actions by the DOD. In October 2009, MPC Products reached an agreement with the DOJ to resolve the criminal and civil claims related to the investigation. As part of the settlement of the civil claims, MPC Products paid approximately $22,500 in compensation. The civil settlement was approved by the United States District Court for the Northern District of Illinois (the District Court) on October 7, 2009. In connection with the settlement of the criminal claims, on November 4, 2009, MPC Products pled guilty to one count of wire fraud related to its pre-June 2005 government contract pricing practices, and agreed to pay a fine of $2,500. Pursuant to the plea agreement, MPC Products was also placed on probation for two years. The criminal case plea agreement and sentencing were approved by the District Court, concluding the DOJ s investigation of these matters. If MPC Products fails to comply with the terms of the civil settlement or plea agreement or the conditions of probation, it could be subject to additional fines, sanctions, suspensions or debarment. Woodward and MPC Products also entered into a three-year administrative agreement with the DOD on October 7, 2009. The administrative agreement lifted a suspension of MPC Products from receiving government contracts, which was in place from July 8, 2009 until October 7, 2009. The administrative agreement requires, among other things, that Woodward and its affiliates, including MPC Products, implement certain enhancements to existing ethics and compliance programs and make periodic reports to the DOD. If Woodward and MPC Products fail to implement these enhancements to their ethics and compliance programs or fail to otherwise adhere to the terms of the administrative agreement, the DOD could suspend or debar Woodward or MPC Products from doing business with U.S. government agencies and entities.

Any fines or sanctions beyond $25,000, or other sanctions, suspensions or debarment, could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our profitability may suffer if we are unable to reduce our expenses in proportion to sales declines.

Some of our expenses are relatively fixed in relation to changes in sales volumes and are difficult to adjust in the short term. Some of these expenses are related to past capital expenditures or business acquisitions in the form of depreciation and amortization expense. Others are related to expenditures driven by levels of business activity other than the level of sales, including manufacturing overhead. As a result, we might be unable to reduce expenses in a timely manner to compensate for a reduction in sales, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Suppliers may be unable to provide us with materials of sufficient quality or quantity required to meet our production needs at favorable prices or at all.

We are dependent upon suppliers for parts and raw materials used in the manufacture of components that we sell to our customers. We may experience an increase in costs for parts or materials that we source from our suppliers, or we may experience a shortage of materials for various reasons, such as the loss of a significant supplier, high overall demand creating shortages in parts and supplies we use, financial distress, work stoppages, natural disasters, or production difficulties that may affect one or more of our suppliers. In particular, the prolonged global economic downturn may affect our key suppliers in terms of their operating cash flow and access to financing. This may in turn affect their ability to perform their obligations to us. Our customers rely on us to provide on-time delivery and have certain rights if our delivery standards are not maintained. A significant increase in our supply costs, or a protracted interruption of supplies for any reason, could result in the delay of one or more of our customer contracts or could damage our reputation and relationships with customers. Any of these events could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Subcontractors may fail to perform contractual obligations.

We frequently subcontract portions of work due under contracts with our customers and are dependent on the continued availability and satisfactory performance by these subcontractors. Nonperformance or underperformance by subcontractors could materially impact our ability to perform obligations to our customers. A subcontractor s failure to perform could result in a customer terminating our contract for default, expose us to liability, substantially impair our ability to compete for future contracts and orders, and limit our ability to enforce fully all of our rights under these agreements, including any rights to indemnification. Any of these events could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our product development activities may not be successful or may be more costly than currently anticipated.

Our business involves a significant level of product development activities, generally in connection with our customers development activities. Industry standards, customer expectations, or other products may emerge that could render one or more of our products or services less desirable or obsolete. Maintaining our market position will require continued investment in research and development. During an economic downturn, including the current one, we may need to maintain our investment in research and development, which may limit our ability to reduce these expenses in proportion to a sales shortfall. If these activities are not as successful as currently anticipated, or if they are more costly than currently anticipated, future sales and/or earnings could be lower than expected, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Activities necessary to integrate acquisitions may result in costs in excess of current expectations or be less successful than anticipated.

We recently completed acquisitions of MPC, MotoTron, and HRT, and we may acquire other businesses in the future. The success of these transactions will depend on, among other things, our ability to integrate assets and personnel acquired in these transactions and to apply our internal controls process to these acquired businesses. The integration of these acquisitions may require significant attention from our management, and the diversion of management s attention and resources could have a material adverse effect on our ability to manage our business. Furthermore, we may not realize the degree or timing of benefits we anticipated when we first enter into these transactions. If actual integration costs are higher than amounts assumed, if we are unable to integrate the assets and personnel acquired in an acquisition as anticipated, or if we are unable to fully benefit from anticipated synergies, our business, financial condition, results of operations, and cash flows could be materially adversely affected.

Our substantial debt obligations could adversely affect our business and limit our ability to plan for or respond to changes in our business.

We have substantially increased our leverage to finance our recently completed acquisitions of MPC, MotoTron, and HRT, which were financed in part with indebtedness incurred under our revolving credit facility, our term loan facilities and our note purchase agreements. As of September 30, 2009, our total debt was $572,142. Our substantial debt obligations could have important consequences to our business. For example:

we may be more vulnerable to general adverse economic and industry conditions;

we may be more limited in our ability to borrow additional funds;

we may be required to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow for other purposes, including business development efforts and mergers and acquisitions; and

- our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate may be limited, thereby placing us at a competitive disadvantage compared to our competitors that have less indebtedness.

In addition, certain restrictions in our term loan facilities, revolving credit facility, and note purchase agreements may prevent us from taking actions that we believe would be in the best interest of our business and may make it more difficult for us to execute our business strategy successfully or to compete effectively with companies that are not similarly restricted. For example, under our term loan facilities, revolving credit facility and note purchase agreements, we are generally required to maintain a total debt to earnings before interest, taxes, depreciation and amortization, plus any non-cash charges to the extent deducted in computing net income, minus any unusual non-cash gains to the extent added in computing net income (EBITDA) ratio not to exceed 3.5 to 1.0. Our debt obligations could limit our ability to plan for or respond to changes in our business, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Certain restrictive covenants limit our ability to operate our business and to pursue our business strategies, and if we fail to comply with these covenants, it could result in an acceleration of payments for our outstanding indebtedness.

Our existing term loan facilities, revolving credit facility and note purchase agreements contain covenants that limit or restrict our ability to finance future operations or capital needs, to respond to changing business and economic conditions, or to engage in other transactions or business activities that may impact our growth or otherwise be important to us. These agreements limit or restrict, among other things, our ability and the ability of our subsidiaries to:

- incur additional indebtedness;
- pay dividends or make distributions on our capital stock or certain other restricted payments or investments;
- purchase or redeem stock;
- issue stock of our subsidiaries;
- make domestic and foreign investments and extend credit;
- engage in transactions with affiliates;
- transfer and sell assets;
- effect a consolidation or merger or sell, transfer, lease, or otherwise dispose of all or substantially all of our assets; and
- create liens on our assets to secure debt.

The agreements contain customary events of default, including certain cross default provisions related to our other outstanding debt arrangements. The agreements also impose financial covenants on us and our subsidiaries that require us to maintain certain leverage ratios and minimum levels of consolidated net worth. In addition, certain of these agreements require us to repay outstanding borrowings with portions of the proceeds we receive from certain sales of property or assets and specified future debt offerings. Our ability to comply with these provisions may be affected by events beyond our control. The additional debt incurred in connection with our recent acquisitions of MPC, MotoTron, and HRT could also make it more difficult for us to meet these financial covenants.

Any breach of these covenants or other event of default could cause a default under these agreements or a cross-default under our other debt arrangements, which could restrict our ability to borrow under our revolving credit facility. If there were an event of default under certain provisions of our debt arrangements that was not cured or waived, the holders of the defaulted debt would be able to cause all amounts outstanding with respect to the debt instrument to be due and payable immediately. Our assets and cash flow may not be sufficient to fully repay borrowings under our outstanding debt instruments if accelerated upon an event of default. If we are unable to repay, refinance, or restructure our indebtedness as required, or amend the covenants contained in these agreements, the lenders or note holders may be entitled to obtain a lien or institute foreclosure proceedings against our assets. Any of these events could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our business may be affected by government contracting risks.

Historically, a portion of our sales of components and systems have been made to the U.S. government, primarily in the aerospace market. After the completion of our recent acquisitions, a more significant portion of our sales will be made to the U.S. government.

We must comply with procurement laws and regulations relating to the formation, administration and performance of our U.S. government contracts. The U.S. government may change procurement laws and regulations from time to time. Our U.S. government contracts and the U.S. government contracts of our customers are also subject to termination by the government, either for the convenience of the government or for default as a result of our failure to perform under the applicable contract. A violation of U.S. government procurement laws and regulations, a change in U.S. government procurement laws and regulations, or a termination arising out of our default could expose us to liability, disbarment, or suspension and could have an adverse effect on our ability to compete for future contracts and orders. If any of our contracts are terminated by the U.S. government, our backlog would be reduced, in accordance with contract terms, by the expected value of the remaining work under such contracts. In addition, we are not the prime contractor on most of our contracts for supply to the U.S. government, and the U.S. government could terminate a prime contract under which we are a subcontractor, irrespective of the quality of our products and services as a subcontractor. Any such event could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

The U.S. government may reduce defense funding or the mix of programs to which such funding is allocated.

Sales made directly to U.S. government agencies and entities were 5% of total net sales during fiscal 2009, 5% during fiscal 2008, and 6% during fiscal 2007 primarily in the aerospace and defense markets. Sales made directly to U.S. government agencies and entities, or indirectly through third party manufacturers utilizing Woodward parts and subassemblies, accounted for approximately 20% of total sales in fiscal 2009, 14% in fiscal 2008, and 18% in fiscal 2007. The level of U.S. defense spending is subject to periodic congressional appropriation actions, which is subject to change at any time. The mix of programs to which such funding is allocated is also uncertain, and we can provide no assurance that an increase in defense spending will be allocated to programs that would benefit our business. If the amount of spending was to decrease, or there was a shift from certain aerospace programs to other programs, our sales could decrease, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Changes in the estimates of fair value of reporting units or of long-lived assets may result in future impairment charges, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Over time, the fair values of long-lived assets change. We test goodwill for impairment at least annually, and more often if circumstances require. Future goodwill impairment charges may occur if estimates of fair values decrease, which would reduce future earnings. We also test property, plant, and equipment and other intangibles for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Future asset impairment charges may occur if asset utilization declines, if customer demand decreases, or for a number of other reasons, which would reduce future earnings. Any such impairment charges could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Future subsidiary results or changes in domestic or international tax statutes may change the amount of valuation allowances provided for deferred income tax assets.

We establish valuation allowances to reflect the estimated amount of deferred tax assets that might not be realized. The underlying analysis is performed for individual tax jurisdictions, generally at a subsidiary level. Future subsidiary results, actual or forecasted, as well as changes to the relevant tax statutes, could change the outcome of our analysis and change the amount of valuation allowances provided for deferred income tax assets, which could have a material adverse effect on our financial condition, results of operations, and cash flows.

Manufacturing activities may result in future environmental costs or liabilities.

We use hazardous materials and/or regulated materials in our manufacturing operations. We also own and operate and may acquire facilities that were formerly owned and operated by others that used such materials. The risk that a significant release of regulated materials has occurred in the past or will occur in the future cannot be completely eliminated or prevented. As a result, we are subject to a substantial number of costly regulations. In particular, we are required to comply with increasingly stringent requirements of federal, state, and local environmental, occupational health and safety laws and regulations in the United States, the European Union, and other territories, including those governing emissions to air, discharges to water, noise and odor emissions, the generation, handling, storage, transportation, treatment and disposal of waste materials, and the cleanup of contaminated properties and human health and safety. Compliance with these laws and regulations results in ongoing costs. We cannot be certain that we have been, or will at all times be, in complete compliance with all environmental requirements, or that we will not incur additional material costs or liabilities in connection with these requirements. As a result, we may incur material costs or liabilities or be required to undertake future environmental remediation activities that could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our performance depends on continued access to a stable workforce and on favorable labor relations with our employees.

Certain of our operations in the United States and overseas involve different employee/employer relationships and the existence of works councils. In addition, a portion of our workforce is unionized and is expected to remain unionized for the foreseeable future. Competition for technical personnel in the industry in which we compete is intense. Our future success depends in part on our continued ability to hire, train, assimilate, and retain qualified personnel. There is no assurance that we will continue to be successful in recruiting qualified employees in the future. Any significant increases in labor costs, deterioration of employee relations, including any conflicts with works councils or unions, or slowdowns or work stoppages at any of our locations, whether due to employee turnover, changes in availability of qualified technical personnel, or otherwise, could have a material adverse effect on our business, our relationships with customers, and our financial condition, results of operations, and cash flows.

A natural disaster could have a material adverse effect on our business, financial condition, results of operations and cash flows.

A substantial portion of the HRT business is located in California. Historically, California has been susceptible to natural disasters, such as earthquakes, floods and wildfires. These natural disasters could harm the operations of the HRT business through interference with communications, including the interruption or loss of its computer systems and the destruction of our facilities or our operational, financial and management information systems, which could prevent or impede us from processing and controlling the flow of business. Accordingly, any such natural disaster could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our intellectual property rights may not be sufficient to protect all our products or technologies.

Our success depends in part on our ability to obtain patents or rights to patents, protect trade secrets and know-how, operate without infringing upon the proprietary rights of others, and prevent others from infringing on our patents, trademarks, and other intellectual property rights. Some of our intellectual property is not covered by any patent or patent application and includes trade secrets and other know-how that is not patentable or for which we have elected not to obtain a patent, including intellectual property relating to our manufacturing processes and engineering design. We will be able to protect our intellectual property from unauthorized use by third parties only to the extent that it is covered by valid and enforceable patents, trademarks, or licenses. Patent protection generally involves complex legal and factual questions and, therefore, enforceability of patent rights cannot be predicted with certainty; thus, any patents that we own or license from others may not provide us with adequate protection against competitors. Moreover, the laws of certain foreign countries do not recognize intellectual property rights or protect them to the same extent as do the laws of the United States. If we infringe on the proprietary rights of others or if we are unable to sufficiently protect our proprietary rights, our business, financial condition, results of operations, and cash flows could be materially adversely affected.

If third parties claim we are infringing on their intellectual property rights, we could face significant litigation, indemnification or licensing expenses, or be prevented from marketing our products.

Our commercial success depends significantly on our ability to operate without infringing on the patents and other proprietary rights of others. However, regardless of our intent, our current or future technologies may infringe upon the patents or violate other proprietary rights of third parties. In the event of such infringement or violation, we may face expensive litigation or indemnification obligations and may be prevented from selling existing products and pursuing product development or commercialization, which could have an adverse affect on our business, financial condition, results of operations, and cash flows.

Product liability claims, product recalls or other liabilities associated with the products and services we provide may force us to pay substantial damage awards and other expenses that could exceed our accruals and insurance coverage.

The manufacture and sale of our products and the services we provide expose us to risk of product liability and other tort claims. Both currently and in the past, we have had a number of product liability claims relating to our products, and we will likely be subject to additional product liability claims in the future for both past and current products, some of which may have a material adverse effect on our business, financial condition, results of operations and cash flows. We also provide certain services to our customers and are subject to claims with respect to the services provided. In providing such services, we may rely on subcontractors to perform all or a portion of the contracted services. It is possible that we could be liable to our customers for work performed by a subcontractor. While we believe that we have appropriate insurance coverage available to us related to any such claims, our insurance may not cover all liabilities or be available in the future at a cost acceptable to us. If a product liability or other claim or series of claims, including class action claims, is brought against us for liabilities that are not covered by insurance or for which third-party indemnification is not available, such claim could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Amounts accrued for contingencies may be inadequate to cover the amount of loss when the matters are ultimately resolved.

In addition to intellectual property and product liability matters, we are currently involved or may become involved in pending or threatened litigation or other legal proceedings regarding employment or other contractual matters arising in the ordinary course of business. We accrue for known individual matters that we believe are likely to result in a loss when ultimately resolved using estimates of the most likely amount of loss. There may be additional losses that have not been accrued, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Changes in the legal and regulatory environments of the countries in which we operate may affect future sales and expenses.

We operate in a number of countries and are affected by a variety of laws and regulations governing various matters, including foreign investment, employment, import, export, business acquisitions, environmental and taxation matters, land use rights, property, and other matters. Our ability to operate in these countries may be materially adversely affected by unexpected changes in such laws and regulations which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

We must also comply with restrictions on exports imposed under the U.S. Export Control Laws and Sanctions Programs. These laws and regulations change from time to time and may restrict foreign sales.

Operations and suppliers may be subject to physical and other risks that could disrupt production.

Our operations include principal facilities in the United States, China, Germany, and Poland. In addition, we operate sales and service facilities in Brazil, India, Japan, the Netherlands, and the United Kingdom. We also have suppliers for materials and parts inside and outside the United States. Our operations and sources of supply could be disrupted by a natural disaster, war, political unrest, terrorist activity, public health concerns, or other unforeseen events, which could cause significant delays in the shipment of products and the provision of services and could cause the loss of sales and customers. Accordingly, disruption of our operations or the operations of a significant supplier could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

We have significant investments outside the United States and significant sales and purchases in foreign denominated currencies, creating exposure to foreign currency exchange rate fluctuations.

We have significant investments outside the United States. Further, we have sales and purchases of raw materials and finished goods in foreign denominated currencies. Accordingly, we have exposure to fluctuations in foreign currency exchange rates relative to the U.S. dollar. These exposures may change over time as our business and business practices evolve, and they could have a material adverse effect on our financial results and cash flows. An increase in the value of the U.S. dollar could increase the real cost to our customers of our products in those markets outside the United States where we sell in U.S. dollars, and a weakened U.S. dollar could increase the cost of local operating expenses and procurement of raw materials to the extent that we must purchase components in foreign currencies. Foreign currency exchange rate risk is reduced through several means, including the maintenance of local production facilities in the markets served, invoicing of customers in the same currency as the source of the products, prompt settlement of inter-company balances utilizing a global netting system, and limited use of foreign currency denominated debt. Despite these measures, continued instability in the worldwide financial markets could impact our ability to manage effectively our foreign currency exchange rate fluctuation risk, which could have a material adverse effect on our international operations or on our business, financial condition, results of operations, and cash flows.

Changes in assumptions may increase the amount of retirement pension and healthcare benefit obligations and related expense.

Accounting for retirement pension and healthcare benefit obligations and related expense requires the use of assumptions, including a weighted-average discount rate, an expected long-term rate of return on assets, and a net healthcare cost trend rate, among others. Benefit obligations and benefit costs are sensitive to changes in these assumptions. As a result, assumption changes could result in increases in our obligation amounts and expenses. Significant increases in the amount of retirement pension and healthcare benefit obligations and related expense could have a material adverse affect on our business, financial condition, results of operations, and cash flows.

Our net pension liabilities may grow, and the fair value of our pension plan assets may decrease, which could require us to make additional and/or unexpected cash contributions to our pension plans, affect our liquidity or affect our ability to comply with the terms of our outstanding debt arrangements.

If interest rates decline, the present value of our pension plan liabilities may increase faster than the value of plan assets, resulting in significantly higher unfunded positions in some of our pension plans. Funding estimates are based on certain assumptions, including discount rates, interest rates, mortality, fair value of assets and expected return on plan assets. Continued volatility in the financial markets may impact future discount and interest rate assumptions. Also new accounting standards on fair value measurement may impact the calculation of future funding levels. We periodically review our assumptions, and any such revision can significantly change the present value of future benefits, and in turn, the funded status of our pension plans and the resulting periodic pension expense. Changes in our pension benefit obligations and the related net periodic costs or credits may occur as a result of variances of actual results from our assumptions, and we may be required to make additional cash contributions in the future beyond those which have been estimated. In addition, our existing term loan facilities, revolving credit facility, and note purchase agreements contain continuing covenants and events of default regarding our pension plans, including provisions regarding the unfunded liabilities related to those pension plans.

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See the discussion above concerning   Certain restrictive covenants limit our ability to operate our business and pursue our business strategies, and if we fail to comply with these covenants, it could result in an acceleration of payments for our outstanding indebtedness.   To the extent that the present values of benefits incurred for pension obligations are greater than values of the assets supporting those obligations or if we are required to make additional or unexpected contributions to our pension plans, our ability to comply with the terms of our outstanding debt arrangements and our liquidity, financial position and results of operations may be adversely affected.

Industry Risks

Competitors may develop breakthrough technologies that are adopted by our customers.

The markets in which we operate experience rapidly changing technologies and frequent introductions of new products and services. The technological expertise we have developed and maintained could become less valuable if a competitor were to develop a breakthrough technology that would allow it to match or exceed the performance of existing technologies at a lower cost. If we are unable to develop competitive technologies, future sales or earnings could be lower than expected, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Industry consolidation trends could reduce our sales opportunities, decrease sales prices, and drive down demand for our product.

There has been consolidation and there may be further consolidation in the aerospace, power, and process industries. The consolidation in these industries has resulted in customers with vertically integrated operations, including increased in-sourcing capabilities, which may result in economies of scale for those companies. If our customers continue to seek to control more aspects of vertically integrated projects, cost pressures resulting in further integration or industry consolidation could reduce our sales opportunities, decrease sales prices, and drive down demand for our products, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

We operate in a highly competitive industry.

We face intense competition from a number of established competitors in the United States and abroad, some of which are larger in size or are divisions of large diversified companies with substantially greater financial resources. Companies compete on the basis of providing products that meet the needs of customers, as well as on the basis of price, quality, and customer service. Changes in competitive conditions, including the availability of new products and services, the introduction of new channels of distribution, and changes in OEM and aftermarket pricing, could adversely affect future sales, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Unforeseen events may occur that significantly reduce commercial aviation.

A significant portion of our business is related to commercial aviation. The prolonged global economic downturn has led to a general reduction in air travel, and passenger miles and cargo service are expected to decline further during 2010**.** In addition, some airlines are withdrawing aircrafts from service, which further exposes our Turbine Systems and Airframe Systems segments sales to potential declines. Prevailing economic conditions are also negatively affecting sales of systems and components for new business jet aircraft. Any further deterioration of economic conditions globally could lead to additional reductions in air traffic. Market demand for our components and systems, including market demand in our aftermarket channels, could be materially adversely affected by such reductions in commercial airline travel and commercial airlines   financial difficulties, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Increasing emission standards that drive certain product sales may be eased or delayed.

We sell components and systems that have been designed to meet strict emission standards, including standards that have not yet been implemented but are intended to be implemented soon. If these emission standards are eased, our future sales could be lower as potential customers select alternative products or delay adoption of our products, which would have a material adverse affect on our business, financial condition, results of operations, and cash flows.

Natural gas prices may increase significantly and disproportionately to other sources of fuels used for power generation.

Commercial producers of electricity use many of our components and systems, most predominately in their power plants that use natural gas as their fuel source. Commercial producers of electricity are often in a position to manage the use of different power plant facilities and make decisions based on operating costs. Compared to other sources of fuels used for power generation, natural gas prices have increased slower than fuel oil, but about the same as coal. This increase in natural gas prices and any future increases could decrease the use of our components and systems, which could have a material adverse affect on our business, financial condition, results of operations, and cash flows.

Investment Risks

The historic market price of our common stock may not be indicative of future market prices.

The market price of our common stock changes over time. Stock markets in general have experienced extreme price and volume volatility particularly over the past year. The trading price of our common stock ranged from a high of $35.99 per share to a low of $8.00 per share during the twelve months ended September 30, 2009. The following factors, among others, could cause the price of our common stock in the public market to fluctuate significantly:

- general economic conditions, particularly in the aerospace, power generation and process and transportation industries;
- variations in our quarterly results of operation;
- a change in sentiment in the market regarding our operations or business prospects;
- the addition or departure of key personnel; and
- announcements by us or our competitors of new business, acquisitions or joint ventures.

Fluctuations in our stock price often occur without regard to specific operating performance. The price of our common stock could fluctuate based upon the above factors or other factors, including those that have little to do with our company, and these fluctuations could be material.

The typical trading volume of our common stock may affect an investor s ability to sell significant stock holdings in the future without negatively affecting stock price.

As of September 30, 2009, we had 72,960 shares of common stock outstanding, excluding 4,621 shares represented by treasury shares and 5,873 shares reserved for issuance upon exercise of outstanding stock option awards or upon satisfaction of performance targets under outstanding equity compensation awards. While the level of trading activity will vary each day, the typical trading level represents only a small percentage of total shares of stock outstanding. As a result, a stockholder who sells a significant number of shares of stock in a short period of time could negatively affect our share price.

Certain anti-takeover provisions of our charter documents and under Delaware law could discourage or prevent others from acquiring our company, which may adversely affect the market price of our common stock.

Our certificate of incorporation and bylaws contain provisions that:

- provide for a classified board;
- provide that directors may be removed only for cause by holders of at least two-thirds of the outstanding shares of common stock;
- authorize our board of directors to fill vacant directorships or to increase the size of our board of directors;
- permit us to issue, without stockholder approval, up to 10,000 shares of preferred stock, in one or more series and, with respect to each series, to fix the designation, powers, preferences and rights of the shares of the series;
- require special meetings of stockholders to be called by holders of at least two-thirds of the outstanding shares of common stock;
- prohibit stockholders from acting by written consent;
- require advance notice for stockholder proposals and nominations for election to the board of directors to be acted upon at meetings of stockholders; and

require the affirmative vote of two-thirds of the outstanding shares of our common stock for amendments to our certificate of incorporation and certain business combinations, including mergers, consolidations, sales of all or substantially all of our assets or dissolution.

In addition, Section 203 of the Delaware General Corporation Law limits business combinations with owners of more than 15% of our stock that have not been approved by the board of directors. These provisions and other similar provisions make it more difficult for a third party to acquire us without negotiation. Our board of directors could choose not to negotiate a potential acquisition that it did not believe to be in our strategic interest. If the potential acquirer were discouraged from offering to acquire us or prevented from successfully completing a hostile acquisition by the anti-takeover measures, a stockholder could lose the opportunity to sell its shares at a favorable price.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal plants are as follows:

United States

Fort Collins, Colorado Corporate headquarters and Turbine Systems, Engine Systems, and Electrical Power Systems manufacturing, and engineering

Greenville, South Carolina (leased) Turbine Systems manufacturing and engineering

Loveland, Colorado Turbine Systems, Electrical Power Systems, and Engine Systems manufacturing

Niles, Illinois (leased) Airframe Systems and Engine Systems manufacturing and engineering

Pacoima, California (leased) Airframe Systems manufacturing and engineering

Rockford, Illinois Turbine Systems manufacturing and engineering

Santa Clarita, California Airframe Systems manufacturing and engineering

Skokie, Illinois (leased) Airframe Systems manufacturing and Airframe Systems and Engine Systems engineering

Zeeland, Michigan Turbine Systems manufacturing and engineering

Other Countries

Aken, Germany (leased) Engine Systems manufacturing and engineering

Kempen, Germany Electrical Power Systems manufacturing and engineering

Krakow, Poland (leased) Electrical Power Systems manufacturing and engineering

Stuttgart, Germany (leased) Electrical Power Systems manufacturing and engineering

Tianjin, Peoples Republic of China (leased) Engine Systems and Electrical Power Systems assembly

In addition to the principal plants listed above, we own or lease other facilities in Brazil, India, Japan, the Netherlands, the Republic of Korea, and the United Kingdom which are used primarily for sales and service activities.

Our principal plants are suitable and adequate for the manufacturing and other activities performed at those plants, and we believe our utilization levels are generally high. However, with continuing advancements in manufacturing technology and operational improvements, we believe we can continue to increase production without significant capital expenditures for expansion, retooling, or acquisition of additional plants.

We are currently constructing a new owned facility in Krakow, Poland which we expect will increase our capacity there during fiscal 2010.

Item 3. Legal Proceedings

We are currently involved in pending or threatened litigation or other legal proceedings regarding employment, product liability, and contractual matters arising from the normal course of business. We have accrued for individual matters that we believe are likely to result in a loss when ultimately resolved using estimates of the most likely amount of loss.

In addition, MPC Products, one of our recently acquired subsidiaries, has been subject to an investigation by the DOJ regarding certain of its government contract pricing practices prior to June 2005, and related administrative actions by the DOD. In October 2009, MPC Products reached an agreement with the DOJ to resolve the criminal and civil claims related to the investigation. As part of the settlement of the civil claims, MPC Products paid approximately $22,500 in compensation. The civil settlement was approved by the District Court on October 7, 2009. In connection with the settlement of the criminal claims, on November 4, 2009, MPC Products pled guilty to one count of wire fraud related to its pre-June 2005 government contract pricing practices, and agreed to pay a fine of $2,500. Pursuant to the plea agreement, MPC Products was also placed on probation for two years. The criminal case plea agreement and sentencing were approved by the District Court, concluding the DOJ s investigation of these matters.

MPC Products government contract pricing practices after June 2005 were not the subject of the investigation, nor was MPC Products product quality. Prior to our acquisition of MPC Products, MPC Products implemented changes to address the accounting issues raised in the government investigation. MPC Products current accounting system has been in place for over four years and is approved by the Defense Contract Audit Agency. In addition to the changes implemented by MPC Products prior to the acquisition, Woodward has made significant progress since the acquisition in the integration of Woodward s policies and system of internal controls at MPC Products.

On October 7, 2009, Woodward and MPC Products entered into a three-year administrative agreement with the DOD. The administrative agreement lifted a suspension of MPC Products from receiving government contracts, which was in place

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from July 8, 2009 until October 7, 2009. Accordingly, MPC Products is again fully eligible to bid, receive and perform on U.S. government contracts. The administrative agreement requires, among other things, that Woodward and its affiliates, including MPC Products, implement certain enhancements to existing ethics and compliance programs and make periodic reports to the DOD.

The purchase price we paid in connection with the acquisition of MPC was reduced by $25,000 at the time of the acquisition, which represents the amounts discussed above.

We are involved in various litigation arising in the normal course of business including proceedings based on product liability claims, workers compensation claims, and alleged violations of various environmental laws. The Company is partially self-insured in the U.S. for healthcare and workers compensation up to predetermined amounts, above which third party insurance applies. Management regularly reviews the probable outcome of these proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and the established accruals for liabilities. While the outcome of pending proceedings cannot be predicted with certainty, management believes that any liabilities that may result from these proceedings will not have a material adverse effect on our liquidity, financial condition, or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal 2009.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on The NASDAQ Global Select Market and at November 19, 2009, there were approximately 1,370 holders of record. Cash dividends were declared quarterly during 2009 and 2008. The amount of cash dividends per share and the high and low sales price per share for our common stock for each fiscal quarter in 2009 and 2008 are included in Note 24. *Supplemental financial data,* to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data.

(a) Recent Sales of Unregistered Securities

Common stock was issued from treasury stock to one of our directors on July 27, 2009 and consisted of the following
(dollars in thousands):

	Total Shares Purchased	Consideration Received
July 1, 2009 through July 31, 2009	442	$ 9
August 1, 2009 through August 31, 2009		
September 1, 2009 through September 30, 2009		
Total	442	$ 9

The securities were issued in reliance upon the exemption contained in Section 4(2) of the Securities Act of 1933.

(b) Issuer Purchases of Equity Securities

(dollars in thousands except per share amounts)

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased under the Plans or Programs (1)
July 1, 2009 through July 31, 2009		$		$ 168,075
August 1, 2009 through August 31, 2009		$		$ 168,075
September 1, 2009 through September 30, 2009 (2)(3)	977	$24.26		$ 168,075

(1) During September 2007, the Board of Directors authorized a stock repurchase program of up to

$200,000 of our outstanding shares of common stock on the open market or privately negotiated transactions over a three-year period that will end in October 2010. During fiscal year 2008, $31,925 was spent from this allocated pool for repurchase of stock. No funds were spent in fiscal year 2009 from this allocated pool for repurchase of stock.

(2) Does not include 42,087 shares acquired as part of the exercise of stock options in September 2009.

(3) The Woodward Governor Company Executive Benefit Plan, which is a separate legal entity, acquired 977 shares of common stock on the open market related to the reinvestment of dividends for shares of treasury stock held for deferred compensation in

September 2009.

The information required by this item relating to securities authorized for issuance under equity plans is included under the caption Executive Compensation Equity Compensation Plan Information in our Proxy Statement for the 2009 Annual Meeting of Stockholders to be held January 22, 2010 and is incorporated herein by reference.

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Item 6. Selected Financial Data

The following selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes which appear in Item 8 Financial Statements and Supplementary Data of this Annual Report.

	Year Ended September 30,				
	2009	2008	2007	2006	2005
	(In thousands except per share amounts)				
Net sales (1)	$1,430,125	1,258,204	1,042,337	854,515	827,726
Net earnings (1) (2) (3) (4) (6)	$ 94,352	121,880	98,157	69,900	55,971
Earnings per share (5):					
Basic	$ 1.39	1.80	1.43	1.02	0.82
Diluted	$ 1.37	1.75	1.39	0.99	0.80
Cash dividends per share	$ 0.240	0.235	0.215	0.200	0.175
Income taxes	$ 28,060	60,030	33,831	14,597	23,137
Interest expense	$ 33,629	3,834	4,527	5,089	5,814
Interest income	$ 1,131	2,120	3,604	2,750	2,159
Depreciation expense	$ 37,828	28,620	25,428	22,064	24,451
Amortization expense	$ 26,120	6,830	7,496	6,953	7,087
Capital expenditures	$ 28,947	37,516	31,984	31,713	26,615
Weighted-average shares outstanding:					
Basic shares outstanding	67,821	67,564	68,489	68,702	68,400
Diluted shares outstanding	69,033	69,560	70,487	70,382	70,254

	At September 30,				
	2009	2008	2007	2006	2005
	(Dollars in thousands)				
Working capital	$ 434,166	369,211	275,611	260,243	241,066
Total assets	$1,696,422	927,017	829,767	735,497	705,466
Long-term debt, less current portion	$ 526,771	33,337	45,150	58,379	72,942
Total debt	$ 572,340	48,928	66,586	73,515	95,787
Total liabilities	$ 987,184	297,389	285,336	256,808	272,997
Stockholders equity	$ 709,238	629,628	544,431	478,689	432,469
Full-time worker members	5,721	4,476	4,248	3,731	3,513
Registered stockholder members	1,371	1,358	1,229	1,442	1,448

Notes:

1. On October 3, 2008, Woodward acquired MPC. On April 3, 2009, Woodward acquired HRT, including its

F&P product line. The F&P product line was sold on August 10, 2009.

2. In March 2009, Woodward recorded restructuring and other charges totaling $15,159 before taxes related to restructuring our businesses to adjust to the current economic environment.

3. Net earnings for fiscal 2007 included two tax adjustments, a favorable resolution of issues with tax authorities resulting in a reduction of net tax expense of $13,300 and a reduction in deferred tax assets resulting in a tax expense of $3,000 due to a decrease in the German statutory income tax rate. These adjustments increased net earnings by $10,300, or $0.15 per basic share and $0.15 per diluted

share.

4. Net earnings for fiscal 2006 included a deferred tax asset valuation allowance change that increased net earnings by $13,710, or $0.20 per basic share and $0.19 per diluted share.

5. Per share amounts have been updated from amounts reported prior to February 1, 2008 to reflect the effect of a two-for-one stock split and prior to February 1, 2006 to reflect the effect of a three-for-one stock split.

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6. Accounting for stock-based compensation changed to the fair value method from the intrinsic value method beginning in the first quarter of fiscal 2006, concurrent with the adoption on October 1, 2005 of authoritative guidance related to stock-based compensation. The following presents a reconciliation of reported net earnings and per share information to pro forma net earnings and per share information that would have been reported if the fair value method had been used to account for stock-based employee compensation for the fiscal year ended September 30, 2005:

Reported net earnings	$ 55,971
Stock based compensation expense using fair value method, net of tax	1,502
Pro forma net earnings	$ 54,469

Reported net earnings per share:	
Basic	$ 0.82
Diluted	$ 0.80
Pro forma net earnings per share:	
Basic	$ 0.80
Diluted	$ 0.78

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

We are an independent designer, manufacturer, and service provider of energy control and optimization solutions for commercial and military aircraft and ground vehicles, turbines, reciprocating engines, and electrical power system equipment. Our innovative fluid energy, combustion control, electrical energy, and motion control systems help customers offer cleaner, more reliable and more cost-effective equipment. Leading OEMs use our products and services in aerospace, power generation and distribution, and transportation markets.

Our strategic focus is energy control and optimization solutions. The control of energy, including fluid energy, combustion, electrical energy and motion, is a growing requirement in the markets we serve. Our customers look to us to optimize the efficiency, emissions, and operation of power equipment in both commercial and military applications. Our core technologies leverage well across our markets and customer applications, enabling us to develop and integrate cost-effective and state-of-the-art fuel, combustion, fluid, actuation, and electronic systems. We focus primarily on OEMs and equipment packagers, partnering with them to bring superior component and system solutions to their demanding applications.

We have four operating business segments Turbine Systems, Airframe Systems, Electrical Power Systems, and Engine Systems.

Turbine Systems develops and manufactures systems and components that provide energy control and optimization solutions for aircraft propulsion applications, including fuel and combustion systems for turbine engines, as well as industrial gas and steam turbine markets.

Airframe Systems develops and manufactures high-performance cockpit, electromechanical and hydraulic motion control systems, and mission-critical actuation systems and controls for weapons, aircraft, turbine engines, and combat vehicles, primarily for aerospace and military applications.

Electrical Power Systems develops and manufactures systems and components that provide power sensing and energy control systems that improve the security, quality, reliability and availability of electrical power networks for industrial markets, which include the power generation, power distribution, and power conversion industries.

Engine Systems develops and manufactures systems and components that provide energy control and optimization solutions for the industrial engine markets, which include the power generation, transportation and process industries.

We use segment information internally to assess the performance of each segment and to make decisions on the allocation of resources.

Management s discussion and analysis should be read together with the Consolidated Financial Statements and Notes included in this report. Dollar amounts contained in this discussion and elsewhere in this Annual Report on Form 10-K are in thousands, except per share amounts.

Financial information for the acquired MPC and HRT businesses are reflected in our financial statements from each acquisition date, October 1, 2008 and April 3, 2009, respectively. As a result of the acquisitions of MPC and HRT and the sale of the F&P product line, a comparison of results for the year ended September 30, 2009 to the years ended September 30, 2008 and September 30, 2007 may not be particularly meaningful.

References to organic net sales or net earnings refer to financial information of Woodward businesses excluding the businesses acquired in the MPC and HRT acquisitions, which have been integrated into the Airframe Systems business segment, and the F&P product line that was recently sold.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires us to make judgments, assumptions, and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Note 1. *Operations and summary of significant accounting policies,* to the Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of the

Consolidated Financial Statements. The accounting positions described below are significantly affected by critical accounting estimates. Such accounting positions require significant judgments, assumptions, and estimates to be used in the preparation of the Consolidated Financial Statements, and actual results could differ materially from the amounts reported based on variability in factors affecting these estimates.

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Our management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed our disclosures to it in this Management s Discussion and Analysis.

Revenue recognition

Woodward generally recognizes revenue upon shipment or delivery for the sale of products that are not under long-term contracts. Delivery is upon completion of manufacturing, customer acceptance, and the transfer of the risks and rewards of ownership. In countries whose laws provide for retention of some form of title by sellers, enabling recovery of goods in the event of customer default on payment, product delivery is considered to have occurred when the customer has assumed the risks and rewards of ownership of the products. Occasionally, Woodward transfers title of product to customers, but retains substantive performance obligations such as completion of product testing, customer acceptance or in some instances regulatory acceptance. Revenue is deferred until the performance obligations are satisfied. Identification of such performance obligations and determination that the performance obligations have been substantively fulfilled are dependent on management judgment.

Airframe Systems revenues include performance under a number of long-term customer contracts. A number of estimates are required to determine the amount of revenue to be recognized for each reporting period, as described below.

Within Airframe Systems, revenue from cost-reimbursable type contracts is recognized on the basis of reimbursable contract costs incurred during the period, including applicable fringe, overhead expenses, and general administrative expenses, as permitted by the specific contracts. For most cost reimbursable contracts, sales are calculated based on the percentage that total costs incurred bear to total estimated costs at completion. For certain contracts with large upfront purchases of material, sales are calculated based on the percentage that incurred direct labor costs bear to total estimated direct labor costs. For contracts for which sufficient reliable cost projections are not available, Woodward uses the completed contract method, until such time as reliable cost projections become available. Airframe Systems does not progress bill for any services where the contract has not been completed or where the contract does not have specified milestones, unless specifically permitted by the contract.

The Airframe Systems segment provides development services under long-term development contracts. Development services may be fully-funded or partially-funded by the customer based on the terms of the contract.

Revenues under long-term fully-funded contracts and fixed price contracts are generally accounted for under the percentage-of-completion method as permitted by U.S. GAAP guidance for revenue recognition on construction-type and production-type contracts. Under the percentage-of-completion method, Woodward estimates profit as the difference between the total estimated revenue and the cost of a contract. Woodward then recognizes this estimated profit over the contract term based on either the costs incurred (under the cost-to-cost method, which is typically used for development effort) or the units delivered (under the units-of-delivery method, which is used for production effort), as appropriate under the circumstances. Revenues under all cost-reimbursement contracts are recorded using the cost-to-cost method. Revenues under fixed-price contracts generally are recorded using the units-of-delivery method; however, when the contracts provide for periodic delivery after a lengthy period of time over which significant costs are incurred or when they require a significant amount of development effort in relation to total contract volume, revenues are recorded using the cost-to-cost method. For contracts for which sufficient reliable cost projections are not available, Woodward uses the completed contract method, until such time as reliable cost projections become available.

Profits from long-term fully-funded development contracts are based on estimates of total contract cost and revenue utilizing current contract specifications, expected engineering requirements and the achievement of contract milestones, including product deliveries. Certain contracts are awarded with price redetermination or for cost and/or performance incentives. Such redetermined amounts or incentives are included in sales when the amounts can reasonably be determined and estimated. Amounts representing contract change orders, claims requests for equitable adjustment, or limitations in funding are included in sales only when they can be reliably estimated and realization is probable. Contract costs typically are incurred over a period of several years, and the estimation of these costs requires substantial judgment. Woodward reviews and revises these estimates periodically throughout the contract term. Revisions to contract profits are recorded when the revisions to estimated revenues or costs are made. Anticipated losses on contracts are recognized in full during the period in which the losses become probable and estimable. In the period in which it is determined that a loss will result from the performance of a contract, the entire amount of the estimated loss is charged against income. Loss provisions are first offset against costs that are included in inventories, with any remaining amount reflected in liabilities. Changes in estimates of contract sales, costs, and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. As a result, the effect of the changes on future periods of contract performance is recognized as if the revised estimate had been the original estimate. A significant change in an estimate on one or more contracts could have a material adverse effect on the Company s consolidated financial position or results of operations.

All pre-production costs to design, develop, and test prototypes, in excess of a buyer s funding, are expensed as incurred. In the event costs are equal to or less than a buyer s funding levels, the costs are capitalized. Costs incurred to produce deliverable hardware are inventoried. On customer programs where such costs exceed market value, inventory is written down to reflect market value. In addition, losses are recorded for outstanding purchase orders for materials procured specifically for such programs. Revenue and capitalized costs are recognized in earnings as milestones are achieved.

Certain of Airframe Systems contracts are with the U.S. government and commercial customers who supply the U.S. government, and are subject to audit and adjustment. For all such contracts, revenues have been recorded based upon those amounts expected to be realized upon final settlement. The Federal Acquisition Regulations provide guidance on the types of costs that will be reimbursed in establishing contract price.

Purchase accounting

Woodward consummated three acquisitions during fiscal 2009 for a total cost of $768,423. In addition, we sold the F&P product line acquired as part of the HRT acquisition for net proceeds of approximately $48,000. Significant assumptions and estimates, including projections of future cash flows, affect the carrying value of acquired assets and assumed liabilities, including inventories and other tangible and intangible assets. Changes in the carrying amounts of acquired assets and assumed liabilities change the carrying value of goodwill, which is not amortized for accounting purposes. Changes in the carrying amount of acquired assets and assumed liabilities also impact future costs and may subject the company to risk of future impairment of tangible and intangible assets acquired, including goodwill.

Inventory

Inventories are valued at the lower of cost or market, with cost being determined using methods that approximate a first-in, first-out basis. Customer-specific information and contractual terms are considered when evaluating lower of cost or market considerations. The carrying value of inventory as of September 30, 2009 was $302,339. If economic conditions, customer product mix decisions or other factors significantly reduce future customer demand for our products from forecast levels, then future adjustments to the carrying value of inventory may become necessary. We attempt to maintain inventory quantities to levels considered necessary to fill expected orders in a reasonable time frame, which we believe mitigates our exposure to future inventory carrying cost adjustments.

Post-retirement benefits

The Company provides various benefits to certain employees through defined benefit plans and retirement healthcare benefit plans. For financial reporting purposes, net periodic benefits expense and related obligations are calculated using a number of significant actuarial assumptions, including anticipated discount rates, rates of compensation increases, long-term return on defined benefit plan investments, and anticipated healthcare cost increases. Based on these actuarial assumptions, at September 30, 2009 our recorded liabilities include $38,173 for underfunded defined benefit pension plans and $42,427 for underfunded retirement healthcare benefit plans. Changes in net periodic expense or the amounts of recorded liabilities may occur in the future due to changes in these assumptions.

Estimates of the value of post-retirement benefit obligations, and related net periodic benefits expense, are dependent on actuarial assumptions including future interest rates, compensation rates, healthcare cost trends, and returns on defined benefit plan investments. Variances from our year end estimates for these variables could materially affect our recognized post-retirement benefit obligation liabilities. On a near-term basis, such changes are unlikely to have a material impact on reported earnings, since such adjustments are recorded to other comprehensive income and recognized into expense over a number of years. Significant changes in estimates could, however, materially affect the carrying amounts of benefit obligation liabilities, including accumulated benefit obligations, which could affect compliance with the provisions of our debt arrangements and future borrowing capacity. In light of recent global economic instability, management considers the likelihood that such assumptions may change significantly in future periods to be greater than in recent years.

Reviews for impairment of goodwill

At September 30, 2009, we had $442,802 of goodwill, representing 26% of our total assets. We test goodwill for impairment at the reporting unit level on an annual basis as of March 31 each year, and more often if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. These events or circumstances could include a significant adverse change in the business climate, poor indicators of operating performance, or a sale or disposition of a significant reporting unit. We consider each of our operating segments to be reporting units for purposes of testing for goodwill impairment.

Testing goodwill for impairment requires us to determine the amount of goodwill associated with reporting units, estimate fair values of those reporting units, and determine their carrying values. These processes are subjective and require significant estimates. These estimates include judgments about future cash flows that are dependent on internal forecasts, long-term growth rates, allocations of commonly shared assets, and estimates of weighted-average cost of capital used to discount future cash flows. Changes in these estimates and assumptions could materially affect the results of our reviews for impairment of goodwill.

Because our impairment analysis is partially dependent upon future cash flow projections for our operating segments, discounted at appropriate interest rates, if future sales are significantly affected by changes in the overall economy, negatively affecting future cash flows, or if interest or income tax rates change significantly from current levels, then the impairment assessment could be affected, which could materially impact our results of operations and financial position.

The impairment test consists of comparing the estimated fair value of the reporting unit, determined using discounted cash flows, with its carrying amount including goodwill. We use discounted cash flows to estimate the fair value of each reporting unit because we think this method provides the best estimate of the total value of the reporting units. The determination of the estimated fair values of each reporting unit is dependent upon future cash flow projections for our operating segments, discounted at appropriate interest rates. For the March 31, 2009 annual impairment assessment, we assumed an 11% weighted-average cost of capital, a 3% projected growth rate for years past the timeframe of our forecasts, and an overall effective income tax rate of 33%.

If the carrying amount of a reporting unit exceeds its estimated fair value, we would compare the implied fair value of goodwill of the reporting unit to the carrying amount of the reporting unit goodwill. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss would be recognized to reduce the goodwill carrying amount to its implied fair value. For the annual impairment tests of fiscal years 2009, 2008, and 2007, the estimated fair value of each reporting unit exceeded its carrying value, so no impairment was reported and we were not required to calculate the implied fair value of goodwill for any of those years.

Income taxes

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes.

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. The reserves are established when we believe that certain positions are likely to be challenged and may not be fully sustained on review by tax authorities. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or refinement of an estimate. Although we believe our reserves are reasonable, no assurance can be given that the final outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate. As of September 30, 2009, unrecognized gross tax benefits for which recognition has been deferred was $19,783.

Significant judgment is also required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made. As of September 30, 2009, our valuation allowance was $132.

Our effective tax rates differ from the statutory rate primarily due to the tax impact of foreign operations, adjustments of valuation allowances, research tax credits, state taxes, and tax audit settlements.

Our provision for income taxes is subject to volatility and could be affected by earnings that are different than anticipated in countries which have lower or higher tax rates; by changes in the valuation of our deferred tax assets and liabilities; by transfer pricing adjustments; by tax effects of share-based compensation; by costs or benefits related to intercompany restructurings; or by changes in tax laws, regulations, and accounting principles, including accounting for uncertain tax positions, or interpretations thereof. In addition, we are subject to examination of our income tax returns by the U.S. Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these examinations will not have a significant effect on our operating results, financial condition and cash flows.

Business Environment and Trends

The global economic downturn has impacted all of our markets, but these markets have generally shown recent signs of stability as well as improving economic conditions and market visibility. Small industrial engines and power generation equipment are early-cycle businesses that we believe may be at or near the low point of the down-cycle. Aerospace and marine transportation are later-cycle businesses that we expect to experience some additional decline before improving.

Aerospace and Defense

In commercial aerospace, global air traffic is estimated to have declined 5% in 2009 and there was a dramatic reduction in business jet production. We believe recent improvements in passenger and freight demand, as well as financing availability, should provide some stability for OEM and aftermarket production in the second half of 2010, however, we expect business and regional jet production levels to decline further during 2010.

In the defense markets, overall spending was up approximately 9% in 2009 and is expected to be flat in 2010. Key military programs in fixed wing, rotorcraft, and weapons systems have provided relative stability in the defense markets during this uncertain economic environment. Key programs that have been stable or growing include F/A-18 E/F, Joint Strike Fighter, and Blackhawk. Military aftermarket, tied to the support of ongoing U.S. war efforts, has been consistent throughout this cycle. We expect the demand for mature weapons guidance products to continue at their current reduced rates and to be supplemented by increased international demand, as well as the launch of next generation smart weapon systems, including enhanced guided bomb and guided rocket programs.

Industrial Turbines

The industrial turbine market has been impacted by the economic downturn in relation to credit market availability and large capital project constraints. The aftermarket segment of the industry has been favorably impacted by service needs related to turbine installations early in the decade. These trends may continue for the near-term. Long-term power needs as well as renewable backup power should cause industrial turbines to return to more favorable growth rates when recovery is more assured.

As power generation demand growth returns, turbines will provide a strong solution due to the inherent low emissions and fast permitting and construction times, along with the abundant availability of low cost natural gas. Further, the gas turbines are expected to serve a critical market need in supporting renewable assets in providing fast start and load acceptance during times when renewable sources fluctuate. OEM turbine manufacturers appear to be investing in new technologies focused on emissions, part load operation, start times, and fuel flexibility.

Reciprocating Engines

While the current economic climate has adversely affected the end markets for industrial engines this past year, industrial production and other economic indicators have shown signs of stabilization in the fourth quarter of fiscal 2009, particularly in Asia.

Demand for small gas and diesel engines, including engines used in alternative fuel vehicles and equipment, is recovering from depressed levels as equipment manufacturers increase their production schedules. Demand is expected to stabilize and then improve for these small engines in fiscal 2010. However, demand for large gas and diesel engines is expected to decline further as the longer-cycle marine and large-scale power generation markets remain soft, consistent with reduced global trade and commercial construction activity.

Longer term, new mandated emissions requirements across many regions and engine applications is driving demand for higher-technology control systems, as is customer demand for improved engine efficiencies. Energy policies in some countries encourage the use of natural gas and other alternative fuels over carbon-rich petroleum fuels, increasing demand for a variety of alternative engine control technologies.

Wind Energy

Current and near-term wind turbine installations have decreased as a result of tight credit markets and governmental delay in the provision of stimulus funding and clarification of tax credit availability. The continued support of wind energy technology through the United States' stimulus package, the European Union s Renewable Energy Directive, and China s initiative to achieve significant renewable energy targets by 2012 indicates long-term growth for this market.

Electrical Power Generation and Distribution

The electrical power generation and distribution markets were impacted negatively in fiscal 2009. Infrastructure project financing and governmental support of grid improvements are expected to return in fiscal 2010.

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RESULTS OF OPERATIONS

Sales

The following table presents the breakdown of consolidated net external sales by segment:

	Year Ended September 30, 2009		2008		2007	
Segment net sales:						
Turbine Systems	$ 632,222	44%	$ 634,658	50%	$ 556,702	53%
Airframe Systems	321,956	23				
Electrical Power Systems	243,146	17	289,294	23	181,366	17
Engine Systems	340,995	24	469,432	37	432,909	42
Total segment net sales	1,538,319	108	1,393,384	110	1,170,977	112
Less intersegment net sales:						
Turbine Systems	(14,272)	(2)	(18,470)	(1)	(21,285)	(2)
Airframe Systems	(2,947)	(0)				
Electrical Power Systems	(48,146)	(3)	(66,571)	(5)	(55,662)	(5)
Engine Systems	(42,829)	(3)	(50,139)	(4)	(51,693)	(5)
Consolidated net external sales	$ 1,430,125	100%	$ 1,258,204	100%	$ 1,042,337	100%

Consolidated net external sales for the year ended September 30, 2009 increased 14% compared to fiscal 2008. Total organic net sales decreased 12% (approximately 9% excluding the effects of foreign exchange rates), largely reflecting decreased net sales in our Engine Systems business segment.

Intersegment sales primarily reflect contract-manufacturing activity across business segments. As part of their system offerings, Turbine Systems and Engine Systems sell electronic controls manufactured by Electrical Power Systems. Engine Systems also manufactures certain components of larger systems ultimately sold by Turbine Systems. These intersegment activities have historically increased growth in our Turbine Systems and Engine Systems segments. Further integration of our Airframe Systems segment is also expected to result in the manufacture of additional electronic controls by Electrical Power Systems.

2009 Compared to 2008

Consolidated net external sales increased 14% from fiscal 2008 to fiscal 2009 primarily related to the acquisitions of MPC and HRT. Details of the changes in consolidated net external sales are as follows:

Consolidated net external sales for year ended September 30, 2008	$ 1,258,204
Turbine Systems volume changes	(777)
Electrical Power Systems volume changes	(5,843)
Engine Systems volume changes	(119,334)
Acquisition of MPC and HRT (Airframe Systems)	319,009
Acquisition of MotoTron	7,229
Price changes	7,125
Foreign currency	(38,322)
Other	2,834
Consolidated net external sales for year ended September 30, 2009	$ 1,430,125

Turbine Systems segment net sales *(including intersegment sales)* reflected growth in the first half of fiscal 2009 and declines in the second half of fiscal 2009 as compared to the same periods in fiscal 2008. We believe this overall trend is consistent with underlying economic market trends during the period, which have been driven by slowing deliveries of new

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aerospace equipment and reduced commercial airline and cargo flight miles. In particular, deliveries of business jets have slowed significantly as companies have reduced their levels of capital investment. We did, however, experience increases in sales in the industrial gas turbine market. While the overall market was generally flat, we benefited from higher demand for the production of new industrial gas turbines which included more significant Woodward content for both heavy frame and aeroderivative turbines. We also benefited from increases in related aftermarket sales as compared to last year related to the timing of repair and overhaul activities on equipment installed.

Airframe Systems segment net sales *(including intersegment sales):* On October 1, 2008, we acquired MPC and formed the Airframe Systems segment. On April 3, 2009, we acquired HRT and added this business to our Airframe Systems segment. On August 10, 2009, we sold the F&P product line acquired as part of the HRT acquisition. Airframe Systems net sales included $9,620 for the F&P product line. While full year sales for this segment were not reported as part of Airframe Systems, on a comparable basis, sales were down slightly compared with the prior year. The year over year decline was driven mainly by expected significant reductions in the sales of control actuation systems for the Joint Direct Attack Munition and sales to business jet customers, consistent with the change in overall market volumes. These decreases in sales volume were offset by gains in our rotorcraft, military aircraft, and other markets. Aftermarket net sales experienced slight declines due to passenger and cargo carriers taking older aircraft out of service offset by moderate increases in the military aftermarket.

Electrical Power Systems segment net sales *(including intersegment sales)* experienced strong growth in demand for wind converters during the first three quarters of fiscal 2009 and a significant decline during the fourth quarter of fiscal 2009 as compared to the same periods in fiscal 2008. The increase in power conversion sales was partially offset by declines in sales of demand for small and medium sized GenSets (less than 10 megawatt) as compared to the same periods last year.

Engine Systems segment net sales *(including intersegment sales)* decreased due to the broad declines across the transportation and power generation markets for industrial engines compared to fiscal 2008. During the fourth quarter of fiscal 2009, MotoTron was fully integrated in Engine Systems. MotoTron s net sales have been adversely impacted by the current economic environment.

Price changes: Selling price increases across most products in Turbine Systems and Engine Systems were in response to prevailing market conditions.

Foreign currency exchange rates: Our worldwide sales activities are primarily denominated in U.S. dollar (USD), European Monetary Unit (the Euro), and Great Britain pound (GBP). As these currencies fluctuate against each other and other currencies, we are exposed to gains or losses on sales transactions. During fiscal 2009, organic net sales were negatively impacted by approximately $38,000 due to changes in foreign currency exchange rates.

2008 Compared to 2007

Consolidated net external sales increased 21% from fiscal 2007 to fiscal 2008. The increase was attributable to the following:

Consolidated net external sales for year ended September 30, 2007	$ 1,042,337
Turbine Systems volume changes	64,714
Electrical Power Systems volume changes	76,856
Engine Systems volume changes	13,717
Price changes	13,613
Foreign currency	46,967
Consolidated net external sales for year ended September 30, 2008	$ 1,258,204

Turbine Systems sales volume changes: Turbine Systems sales performance reflected generally strong demand for our OEM offerings in the industrial and aerospace turbine markets, including our recently introduced control systems for business jets and power generation OEM and the government for military applications. This mix of aerospace growth reflects the high volume of orders for new aircraft with engines containing increased Woodward content.

Electrical Power Systems sales volume changes: Demand in both the power generation and distribution and wind converter turbine markets continued to drive growth in sales of Electrical Power Systems**.** The growth in wind turbine converter demand was strong. The increase in Electrical Power Systems intercompany sales was the result of higher external sales in Turbines Systems and Engine Systems of products that incorporate electronic controls manufactured by Electrical Power Systems.

Engine Systems sales volume changes: The primary drivers of the growth in sales volume for Engine Systems were increased production in the marine and alternative fuel markets as well as growth in demand in the power and process markets. Engine Systems sales were boosted by demand for our control systems for large, natural gas-powered on-highway vehicles, and our offerings in the marine market.

Price changes: Selling price increases were implemented across most products in Turbine Systems and Engine Systems impacting spares and components used in the aerospace aftermarket. These selling price changes were in response to prevailing market conditions as prices fluctuated for commodities used to produce mechanical, electrical, or electromagnetic components.

Foreign currency exchange rates: Our worldwide sales activities are primarily denominated in USD, Euro, and GBP. As these currencies fluctuate against each other and other currencies, we are exposed to gains or losses on sales transactions. During fiscal 2008, approximately 22% of the increase in net external sales was due to changes in the foreign currency exchange rates.

Costs and Expenses

The following table presents costs and expenses:

	Year Ended September 30,					
	2009	**% of Net Sales**	**2008**	**% of Net Sales**	**2007**	**% of Net Sales**
Net sales	$ 1,430,125	100.0%	$ 1,258,204	100.0%	$ 1,042,337	100.0%
Cost of goods sold	$ 1,029,095	72.0%	$ 882,996	70.2%	$ 728,820	69.9%
Selling, general, and administrative expenses	128,682	9.0	115,399	9.2	111,297	10.7
Research and development costs	78,536	5.5	73,414	5.8	65,294	6.3
Amortization of intangible assets	26,120	1.8	6,830	0.5	7,496	0.7
Restructuring charges	15,159	1.1				
Interest and other income	(4,212)	(0.3)	(6,805)	(0.5)	(7,790)	(0.8)
Interest and other expenses	34,333	2.4	4,460	0.4	5,232	0.5
Consolidated costs and expenses	$ 1,307,713	91.5%	$ 1,076,294	85.6%	$ 910,349	87.3%

2009 Compared to 2008

Cost of goods sold increased 17% primarily as a result of the acquisitions of MPC and HRT. Details of changes in cost of goods sold are as follows:

Cost of goods sold for the year ended September 30, 2008	$ 882,996
Decrease in organic sales volume	(95,376)
Foreign currency	(25,605)
Changes in product mix	6,185
Addition of MPC and HRT (Airframe Systems)	248,681

Acquisition of MotoTron	9,788
Other	2,426
Cost of goods sold for the year ended September 30, 2009	$ 1,029,095

Gross margins, calculated as net sales less cost of goods sold divided by net sales, decreased to 28.0% for the year ended September 30, 2009 compared to 29.8% for the year ended September 30, 2008. The decrease in gross margins reflects charges related to purchase accounting inventory step-up adjustments of $12,500 related to HRT and $2,900 related to MPC, change in product mix, and the addition of MPC and HRT businesses, which generally have lower gross margins than our organic businesses.

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Our foreign locations purchase goods and incur labor and facility overhead costs primarily in Euro and GBP. The change in the foreign currency exchange rates to USD resulted in decreased costs during fiscal 2009 as compared to fiscal 2008.

Selling, general, and administrative (SG&A) expenses increased 12%, attributable to the following:

SG&A for the year ended September 30, 2008	$ 115,399
Addition of MPC and HRT (Airframe Systems)	33,369
Variable compensation	(6,791)
Foreign currency	(5,537)
Savings related to workforce management	(2,655)
Other	(5,103)
SG&A for the year ended September 30, 2009	$ 128,682

Selling, general, and administrative expenses decreased as a percent of sales year-to-year to 9.0% in fiscal 2009 from 9.2% in fiscal 2008. Selling, general, and administrative expenses increased primarily from the addition of MPC and HRT, offset by decreases in foreign currency exchange rates and decreases in variable compensation, which is based on companywide performance factors for the entire fiscal year. Savings related to workforce management reflect the impact of the reduced workforce.

Research and development costs increased 7%, attributable to the following:

Research and development for the year ended September 30, 2008	$ 73,414
Addition of MPC and HRT (Airframe Systems)	9,036
Foreign currency translation	(931)
Savings related to workforce management	(1,350)
Variable compensation	(5,824)
Other	4,191
Research and development for the year ended September 30, 2009	$ 78,536

Research and development costs decreased as a percent of sales year-to-year to 5.5% in fiscal 2009 from 5.8% in fiscal 2008. Research and development costs increased in the year ended September 30, 2009, as compared to the year ended September 30, 2008, reflecting the addition of MPC and HRT, partially offset by a decrease in variable compensation, which is based on companywide performance factors. Savings related to workforce management reflect the impact of the reduced workforce. Our current level of spending is consistent with our strategy of continuing to invest in future technologies.

Turbine Systems is developing components and systems that we believe will be instrumental in helping our customers achieve their objectives of lower fuel consumption, lower weight, reduced emissions, and improved operating economics. We collaborate closely with our customers early in their technology development and preliminary design stages to provide products that deliver the necessary component and system performance for commercial launch. Some technology development programs begin years before an expected entry to service, such as those for next-generation commercial aircraft engines and the next generation of industrial gas and steam turbine applications. We are currently working on joint technology demonstration and/or production contracts for next generation applications with GE Aviation and Pratt & Whitney in the aircraft market and with GE Energy, Pratt & Whitney Power Systems and Siemens in the industrial market.

Other development programs result in nearer-term commercial launches associated with new OEM offerings, product upgrades, or product replacements on existing turbine programs. These nearer-term programs frequently provide opportunities for us to advance our technological capabilities as we provide technologies to assist customers in satisfying increasingly stringent turbine requirements for both aircraft and industrial markets. Our development efforts support a wide range of turbine applications, including both commercial and military engines of various thrust sizes in the aircraft market, and industrial turbine power plants, oil and gas production facilities, and military marine applications in industrial markets. As a result of these investments, we are represented in many of the world s significant recent turbine launches and high-profile turbine development programs.

Airframe Systems is developing highly integrated and advanced cockpit control and actuation systems and components for motion control and sensing in the weapons, aerospace, and defense markets. The aerospace industry has moved toward more electric (fly-by-wire), lighter weight aircraft, while demanding increased reliability and redundancy. Airframe

Systems invests in development programs to address the anticipated requirements of the industry and our customers. These development programs include integrated electromechanical sensor and actuation solutions to support the more electric aircraft effort, technology to use composites for weight reductions in large hydraulic actuation systems, and technologies to provide fault tolerant capabilities for component, sensor, and actuation systems. In addition, Airframe Systems is developing an expanded family of cockpit control products (including throttle and rudder controls) with both conventional and fly-by-wire technology.

Electrical Power Systems is developing a multi-megawatt (MW) class for turbines of 2 MW to 6 MW, both for on-shore and off-shore-applications for wind power applications in its power conversion division. Modular product platforms are being extended to various customer applications and world regions. New research and development projects are focusing on full-scale-converters for applications with permanent magnet generators. The power generation division is focusing on extending the product portfolio of Genset Controls for the parallel and non parallel market and switchgear controls. Various product derivatives have been launched to meet the customers needs in the different world regions. Our power distribution division is finalizing the new generation of protection and control relays for medium-voltage applications and is modernizing the self powered protection relay line.

Engine Systems continues to develop more efficient, cleaner technologies, including integrated control systems and system components that allow our OEM customers to cost-effectively meet mandated exhaust emissions regulations, ever increasing fuel efficiency demands, a choice of fuel sources, and support global infrastructure requirements. Development projects include advanced fuel injection pumps and injectors for low-emission, high efficiency diesel engines used in marine and power generation applications, automated regeneration systems for filters that remove particulates from diesel exhaust, and control systems for alternative-fuel buses and trucks.

Amortization of intangible assets as a percent of sales was 1.8% for the year ended September 30, 2009, as compared to 0.5% for the same period last year reflecting higher levels of amortization expense related to $300,371 of intangible assets acquired with MPC, MotoTron, and HRT, and the disposition of $13,044 of intangible assets sold with the F&P product line in April 2009.

Restructuring and other charges resulted from a number of initiatives we have been implementing aimed at improving our margins through cost reduction and efficiency enhancements. The savings were primarily related to direct and indirect expenses, selling, general, and administrative expenses, and facility rationalization.

We recognized non-acquisition related restucturing and other charges totaling $15,159 during the three months ended March 31, 2009. No restructuring costs were incurred in the year ended September 30, 2008. The main components of the charges included $14,254 of workforce management related costs associated with voluntary early retirements and involuntary separations impacting approximately 450 employees in connection with a strategic realignment of global workforce capacity. Charges totaling $905 were accrued for an impairment loss related to the sale of a building that was vacated. While we expect these efforts to have a significant impact on our cost structure, the outcome of these efforts may not reduce our costs as quickly or as effectively as planned.

Restructuring charges of $10,106 related to the MPC acquisition, which were accrued in the opening balance sheet, include a number of items such as workforce management, costs associated with integrating similar operations, vacating certain facilities, and the cancellation of some contracts. By the end of the fourth quarter, approximately $8,201 had been incurred related to these actions, which included staffing reductions totaling aproximately 360 MPC employees. These restructuring charges and related actions are expected to provide for future cost reductions and other earnings improvements.

Restructuring charges of $7,500 related to the HRT acquisition, which were accrued in the opening balance sheet, are expected to include a number of items such as workforce management, costs associated with integrating similar operations, vacating certain facilities, and the cancellation of some contracts. No costs had been incurred as of September 30, 2009 related to these actions. These restructuring charges and related actions are expected to provide for future cost reductions and other earnings improvements.

Interest expense as a percent of sales was 2.4% for the year ended September 30, 2009, as compared to 0.3% for the same period last year reflecting $400,000 of long-term debt issued in October 2008, which was used primarily to finance the acquisitions of MPC and MotoTron, and $220,000 of long-term debt issued in April 2009 and $105,000 of borrowings from the revolving credit facility incurred in April 2009, which was used primarily to finance the HRT acquisition.

2008 Compared to 2007

Cost of goods sold increased 21% attributable to the following:

Cost of goods sold for the year ended September 30, 2007	$ 728,820
Increase in sales volume	96,314
Foreign currency	32,393
Changes in product mix	13,628
Increased non-volume related freight and product expediting costs	4,809
Other	7,032
Cost of goods sold for the year ended September 30, 2008	$ 882,996

Gross margins were approximately flat at 29.8% for the year ended September 30, 2008 compared to 30.1% for the year ended September 30, 2007. The small decrease in gross margins reflected a change in product mix and increased operating costs associated with productivity enhancements and supply chain constraints.

Our foreign locations purchased goods primarily in Euro and GBP. The change in the foreign currency exchange rates to USD resulted in increased costs during fiscal 2008 as compared to fiscal 2007.

Selling, general, and administrative expenses increased 4%, attributable to the following:

SG&A for the year ended September 30, 2007	$ 111,297
Accruals for legal and arbitration matters	(4,429)
Variable compensation	2,070
Stock-based compensation expense	628
Foreign currency	4,205
Other	1,628
SG&A for the year ended September 30, 2008	$ 115,399

Selling, general, and administrative expenses decreased as a percent of sales year-to-year from 10.7% in fiscal 2007 to 9.2% in fiscal 2008. Selling, general, and administrative expenses increased primarily from increases in foreign currency exchange rates, increased variable compensation, and costs incurred to open new locations, partially offset by a reduction in costs related to legal and arbitration matters.

We accrue for individual legal matters that we believe are likely to result in a loss when ultimately resolved using estimates of the most likely amount of loss.

Research and development costs increased 12%, attributable to the following:

Research and development for the year ended September 30, 2007	$ 65,294
Turbine Systems development activities	2,401
Electrical Power Systems development activities	2,828
Engine Systems development activities	2,891
Research and development for the year ended September 30, 2008	$ 73,414

Research and development costs decreased as a percent of sales year-to-year from 6.3% in fiscal 2007 to 5.8% in fiscal 2008. Research and development costs increased in the year ended September 30, 2008, as compared to the year ended September 30, 2007, reflecting higher levels of development activity.

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Earnings

For the years ended September 30,	2009	2008	2007
Turbine Systems	$ 136,120	$ 128,930	$ 95,953
Airframe Systems	11,023		
Electrical Power Systems	35,891	42,303	20,294
Engine Systems	18,454	43,737	48,384
Total segment earnings	201,488	214,970	164,631
Nonsegment expenses	(46,578)	(31,346)	(31,720)
Interest expense and income, net	(32,498)	(1,714)	(923)
Consolidated earnings before income taxes	122,412	181,910	131,988
Income tax expense	(28,060)	(60,030)	(33,831)
Consolidated net earnings	$ 94,352	$ 121,880	$ 98,157

The following table presents earnings by segment as a percent of segment net sales, including intersegment sales.

For the years ended September 30,	2009	2008	2007
Turbine Systems	21.5%	20.3%	17.2%
Airframe Systems	3.4		
Electrical Power Systems	14.8	14.6	11.2
Engine Systems	5.4	9.3	11.2

Organic net earnings decreased approximately 16% excluding the effects of foreign currency exchange rates for the year ended September 30, 2009 as compared to last year.

2009 Compared to 2008

Turbine Systems segment earnings increased 6%, attributable to the following:

Earnings for the year ended September 30, 2008	$ 128,930
Sales volume changes	(361)
Selling price changes	6,379
Sales mix	(7,551)
Changes in variable compensation	13,559
Cost inflation	(3,930)
Foreign currency	(1,770)
Savings related to workforce management	4,230
Other, net	(3,366)
Earnings for the year ended September 30, 2009	$ 136,120

Turbine Systems segment earnings increased in the first half of fiscal 2009 and decreased in the second half of fiscal 2009 as compared to the same periods in fiscal 2008. Sales of systems and components for aircraft turbine markets followed this pattern, which was somewhat softened by higher sales in industrial gas turbine markets throughout the year. This change in the sales mix reduced earnings, as our gross margins are generally higher for sales in the aerospace market as compared to the industrial markets. We reduced our headcount and implemented other initiatives during 2009 to ensure that our cost structure was aligned with the lower level of sales during the second half of the year. Selling price changes, which were made

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in response to prevailing market conditions, offset material cost inflation for the year. Variable compensation expense, which is based on companywide performance factors, was lower in 2009 than in 2008.

Airframe Systems segment earnings totaled $11,023 for the year ended September 30, 2009. The segment earnings for the year reflect the impact of purchase accounting inventory step-up adjustments of $2,900 related to MPC and $12,500 related to HRT, and $19,551 in amortization of intangibles related to the MPC and HRT acquisitions, all of which are non-cash charges. Our Airframe Systems integration is expected to contribute to improved profitability, broader control system content, and better aftermarket presence and support. Airframe Systems has begun to realize anticipated cost savings and operational integration of MPC and HRT is proceeding consistently with our expectations.

Electrical Power Systems segment earnings decreased 15%, attributable to the following:

Earnings for the year ended September 30, 2008	$ 42,303
Sales volume changes	(4,732)
Selling price changes	(651)
Sales mix	1,580
Changes in variable compensation	3,535
Increased labor costs	(2,834)
Foreign currency	(4,205)
Savings related to workforce management	1,641
Other, net	(746)
Earnings for the year ended September 30, 2009	$ 35,891

Wind converter sales showed modest growth during the year ended September 30, 2009 as compared to the prior year, excluding the effects of foreign currency exchange rates. This growth was offset by declines in sales of products related to power generation and distribution. A change in sales mix and changes in the external market put pressure on margins. Segment earnings were favorably affected by previously taken actions to manage costs, partially offset by unfavorable effects of foreign currency exchange rates. During fiscal 2009, the unfavorable changes in the Euro exchange rate resulted in a 12% net decrease in earnings. During the first two quarters of fiscal 2009, labor costs increased to support the sales growth. Electrical Power Systems was slower to feel the impact of the restructuring activities due to the employment laws in the affected countries of operation.

Engine Systems segment earnings decreased 58%, attributable to the following:

Earnings for the year ended September 30, 2008	$ 43,737
Sales volume changes	(54,215)
Selling price changes	1,397
Sales mix	1,408
Changes in variable compensation	10,000
Foreign currency	(1,254)
Decreased infrastructure and overhead related expenses	2,933
Decrease in freight and duty	5,157
Savings related to workforce management	9,500
Other, net	(209)
Earnings for the year ended September 30, 2009	$ 18,454

The decrease in earnings in Engine Systems was the result of lower sales volumes attributable to broad declines across the major end markets for industrial engines. Expense reductions from restructuring, reduced infrastructure and overhead spending, variable compensation changes, and lower freight and duty expenses due to lower volumes and lower global fuel costs, all provided a partial offset to the volume driven earnings decline. During fiscal 2009, the changes in foreign currency exchange rates resulted in an 7% net decrease in earnings. Global fuel costs have declined significantly since September 30, 2008. Future volatility in fuel costs may impact future earnings results.

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Nonsegment expenses increased 49% in fiscal 2009 as compared to fiscal 2008, attributable to the following:

Nonsegment expenses for the year ended September 30, 2008	$ 31,346
Restructuring and other charges	15,159
Variable compensation	(2,552)
Other	2,625
Nonsegment expenses for the year ended September 30, 2009	$ 46,578

Excluding the effect of the $15,159 of restructuring and other charges, nonsegment expenses increased to $31,419, or 2.2% of current year net sales, compared to 2.5% of net sales in fiscal 2008. Variable compensation expense, which is based on company-wide performance factors, was lower in 2009 than in 2008.

Income taxes were provided at an effective rate on earnings before income taxes of 22.9% in fiscal 2009 compared to 33.0% in fiscal 2008. The change in the effective tax rate was attributable to the following (as a percent of earnings before income taxes):

Effective tax rate at September 30, 2008	33.0%
Adjustments of the beginning-of-the year balance of valuation allowances for deferred tax assets	1.5
Change in estimate for previous periods and settlements with tax authorities	(5.4)
Research credit in fiscal 2009 as compared to fiscal 2008	(2.8)
Retroactive extension of research credit	(1.7)
Foreign tax rate differences	(2.1)
Other changes, net	0.4
Effective tax rate at September 30, 2009	22.9%

Income taxes for both fiscal 2009 and fiscal 2008 were affected by changes in estimates of income taxes for previous years. In both years, the changes were primarily related to settlements and resolutions of income tax matters. These changes reduced the effective tax rate for fiscal 2009 by approximately 7% of pretax earnings.

The effective tax rate comparison between fiscal 2009 and fiscal 2008 was also affected by the retroactive extension of the tax credit for increasing research activities available in fiscal 2009 but not in fiscal 2008. Among the other changes in our effective tax rate were the effects of changes in the relative mix of earnings by tax jurisdiction.

Interest expense and income, net increased to $32,498 during fiscal 2009 from $1,714 during fiscal 2008 reflecting $400,000 of long-term debt issued in October 2008, which was used primarily to finance the acquisitions of MPC and MotoTron, and $220,000 of long-term debt issued in April 2009 and $105,000 of borrowings from the revolving credit facility incurred in April 2009, which was used primarily to finance the HRT acquisition.

2008 Compared to 2007

Turbine Systems segment earnings increased 34%, attributable to the following:

Earnings for the year ended September 30, 2007	$ 95,953
Sales volume changes	22,795
Selling price changes	8,726
Sales mix	(5,993)
Foreign currency	731
Other, net	6,718
Earnings for the year ended September 30, 2008	$ 128,930

The increase in segment earnings of Turbine Systems was principally the result of a modest increase in sales volume over the prior year, and reflected a stronger mix of OEM aerospace products compared to recent quarters. Sales volume increased due to higher demand for OEM, military, commercial aftermarket, and industrial turbine products. Selling price

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increases primarily affected spares and components used in the aerospace aftermarket. Turbine Systems net earnings were negatively affected by an unfavorable product mix compared to the prior year resulting from greater growth of OEM sales relative to aftermarket sales. Program wins and stronger market conditions for our OEM customers resulted in faster growth to OEMs as compared to our aftermarket customers. Our aftermarket pricing catalog is in GBP while much of our costs are in USD. Earnings increased 1% as a result of changes in GBP foreign currency exchange rates during fiscal 2008.

Electrical Power Systems segment earnings increased 108%, attributable to the following:

Earnings for the year ended September 30, 2007	$ 20,294
Sales volume changes	19,118
Selling price changes	1,496
Sales mix	(2,110)
Foreign currency	5,883
Other, net	(2,378)
Earnings for the year ended September 30, 2008	$ 42,303

The improvement in segment earnings reflects the integration of our acquisition in October 2006 of Schaltanlagen-Elektronik-Geräte GmbH & Co. KG (SEG). Sales volume is higher due to converter products sold into wind power applications. A change in sales mix and changes in the external market put pressure on margins. Segment earnings were affected by foreign currency exchange rates primarily as a result of the change in the Euro against the USD during fiscal 2008. A significant portion of Electrical Power Systems sales and many costs are transacted in Euro which is then translated into USD for financial statement purposes. Also, a significant portion of Electrical Power Systems product costs are incurred in USD which contributed to increased margins on sales denominated in Euros. During fiscal 2008, the favorable changes in the Euro resulted in a 29% net increase in earnings.

Engine Systems segment earnings decreased 10%, attributable to the following:

Earnings for the year ended September 30, 2007	$ 48,384
Sales volume changes	5,106
Selling price changes	3,391
Sales mix	(5,525)
Foreign currency	562
Increased non-volume related freight and product expediting costs	(4,809)
Other, net	(3,372)
Earnings for the year ended September 30, 2008	$ 43,737

Sales volume increases were primarily in the power generation and marine markets. Selling price increases across most product lines offset increased material costs. Engine Systems also experienced an unfavorable sales mix compared to the prior year. Engine Systems sells, manufactures, and purchases product in several currencies including USD, Euro, CNY, Yen, and GBP. The percentage of sales in a particular foreign currency may be significantly different from the percentage of costs incurred in that currency. During fiscal 2008, the changes in foreign currency exchange rates resulted in a 1% net increase in segment earnings.

The increased freight costs were the result of increased expediting costs associated with supply chain constraints, product line moves, and fuel surcharges related to increased global fuel costs. Global decline in carrying capacity could lead to increased global freight costs and may adversely impact future earnings results.

Nonsegment expenses decreased 1% in 2008 as compared to 2007, attributable to the following:

Nonsegment expenses for the year ended September 30, 2007	$ 31,720

Accruals for legal matters and arbitration	(4,376)
Stock-based compensation expense	739
Other	3,263
Nonsegment expenses for the year ended September 30, 2008	$ 31,346

Among the other factors affecting nonsegment expenses are normal variations in legal and other professional services. We accrue for individual legal matters that we believe are likely to result in a loss when ultimately resolved using estimates of the most likely amount of loss. For more information about contingencies, see Note 20. *Contingencies,* to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Financial Data.

Income taxes were provided at an effective rate on earnings before income taxes of 33.0% in fiscal 2008 compared to 25.6% in fiscal 2007. The change in the effective tax rate was attributable to the following (as a percent of earnings before income taxes):

Effective tax rate at September 30, 2007	25.6%
Adjustments of the beginning-of-year balance of valuation allowances for deferred tax assets	(1.5)
Change in estimates of taxes for previous periods and audit settlements in 2008 as compared to 2007	9.0
Research credit in 2008 as compared to 2007	2.1
German tax law changes	(2.3)
Other changes, net	0.1
Effective tax rate at September 30, 2008	33.0%

The fiscal 2008 change in the beginning-of-year valuation allowances reduced income tax expense by $2,689. We establish valuation allowances to reflect the estimated amount of deferred tax assets that might not be realized. Both positive and negative evidence are considered in forming our judgment as to whether a valuation allowance is appropriate, and more weight is given to evidence that can be objectively verified. Valuation allowances are reassessed whenever there are changes in circumstances that may cause a change in our judgments. In fiscal 2008, additional objective evidence became available regarding earnings in tax jurisdictions that have unexpired net operating loss carryforwards that affected our judgment about the valuation allowance. Income taxes for fiscal 2008 were affected by changes in estimates of income taxes for previous years. The changes were primarily related to settlements and resolutions of income tax matters. These changes reduced the effective tax rate for fiscal 2008 by approximately 1% of pretax earnings.

The effective tax rate comparison between fiscal 2008 and fiscal 2007 was also affected by the retroactive extension of the tax credit for increasing research activities available in fiscal 2007 but not in fiscal 2008. This credit expired on December 31, 2007. Another retroactive extension was approved in October 2008 that benefited our effective tax rate in fiscal 2009. Among the other changes in our effective tax rate were the effects of changes in the relative mix of earnings by tax jurisdiction.

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

Our ability to service our long-term debt, to remain in compliance with the various restrictions and covenants contained in our debt agreements and to fund working capital, capital expenditures and product development efforts will depend on our ability to generate cash from operating activities which in turn is subject to, among other things, future operating performance as well as general economic, financial, competitive, legislative, regulatory, and other conditions, some of which may be beyond our control.

Historically, we have been able to finance the ongoing business, including capital expenditures and product development, with cash flow provided by operating activities. We expect that cash generated from our operating activities will continue to fund our operating needs in the near term. In the event we are unable to generate sufficient cash flows from operating activities, we have a revolving credit facility comprised of unsecured financing arrangements with a syndicate of U.S. banks totaling $225,000, with an option to increase the amount to $350,000, subject to the lenders participation. On April 3, 2009, we borrowed $105,000 under the revolving credit facility to finance a portion of the HRT acquisition, all of which had been repaid as of September 30, 2009. In addition, we have various foreign lines of credit tied to net amounts on deposit at certain foreign financial institutions, which are generally reviewed annually for renewal. Historically, we have used borrowings under these foreign lines of credit to finance certain local operations.

The additional debt incurred in connection with the MPC and HRT acquisitions could make it more difficult for us to meet financial covenants contained in our debt agreements and has limited the amount of additional debt we can incur. At September 30, 2009, we were in compliance with the financial covenants under our existing long-term debt agreements and revolving credit facility.

We believe liquidity and cash generation are important to fund our ongoing operating needs. We also believe that the restructuring and other cost reduction actions we have been taking will continue to generate cash flow from operations and that this level of cash generation, together with our existing current assets and available borrowings, will adequately support our operations and the strategic initiatives we have identified.

We believe we have adequate access to several sources of contractually committed borrowings and other available credit facilities. However, we could be adversely affected if our banks supplying our short-term borrowing requirements refuse to honor their contract commitments, cease lending, or declare bankruptcy. While we believe the lending institutions participating in our credit arrangements are financially capable, recent events in the global credit markets, including the failure, takeover or rescue by various government entities of major financial institutions, have created uncertainty of credit availability.

Assets

	September 30,	
	2009	**2008**
Turbine Systems	$ 344,789	$ 378,021
Airframe Systems	801,300	
Electrical Power Systems	135,808	133,928
Engine Systems	200,226	235,604
Total segment assets	1,482,123	747,553
Nonsegment assets	214,299	179,464
Consolidated total assets	$ 1,696,422	$ 927,017

Turbine Systems segment assets decreased $33,232 during 2009, reflecting lower accounts receivable, net property, plant and equipment, and inventories. Collections of accounts receivables exceeded customer billings as a result of the timing of sales, which was higher at the end of 2008 than in 2009. Capital expenditures were lower than depreciation expense during 2009 due to a focus on optimizing the use of existing fixed assets to meet business needs rather than acquiring new assets. We also sold a facility that housed an operation that will be consolidated into a nearby existing facility. Finally, incoming raw materials relative to sales has slowed to more accurately align inventories with current sales demand.

Airframe Systems segment assets increased during 2009 due to the formation of the business segment from the acquisitions of MPC and HRT. During the period of operations since the acquisitions, Airframes Systems segment assets have decreased as a result of lower inventories, intangible assets, and property, plant, and equipment, with accounts receivable remaining relatively stable. The decrease in inventory was primarily due to amortization of purchase price adjustments and supply chain management of material receipts. The decrease in intangible assets was due to amortization expense. The decrease in property, plant, and equipment was due to depreciation expense outpacing capital expenditures.

Electrical Power Systems segment assets increased $1,880 during fiscal 2009 due to the investment in the Krakow, Poland facility and the expansion of wind converter production in Colorado and China. Inventory increased to meet sales demand. Accounts receivable decreased as a result of the timing of sales, which was higher at the end of fiscal 2008 than in fiscal 2009, and increased collection efforts.

Engine Systems segment assets decreased by $35,378 during the year ended September 30, 2009 compared to the same period in fiscal 2008 due to lower levels of accounts receivable and inventory resulting from year over year decreases in sales volumes. Capital expenditures were lower than depreciation expense during the year ended September 30, 2009.

Nonsegment assets increased $34,835 during 2009 primarily due to increases in deferred taxes and debt issuance costs. The debt issuance costs are related to the $400,000 of long-term debt issued in October 2008, which was used primarily to finance the acquisitions of MPC and MotoTron, including the repayment of certain obligations associated with those acquisitions, and $220,000 of long-term debt issued in April 2009 and $105,000 of borrowings from the revolving credit facility incurred in April 2009, which was used primarily to finance the acquisition of HRT. Changes in cash are discussed more fully in a separate section of this Management s Discussion and Analysis.

Other Balance Sheet Measures

	September 30,	
	2009	**2008**
Working capital	$434,166	$369,211
Long-term debt, less current portion	526,771	33,337
Other liabilities	112,287	67,695
Stockholders equity	709,238	629,628

Working capital (current assets less current liabilities) increased by $64,955 primarily as a result of the working capital added through the acquisitions of MPC, MotoTron, and HRT, as discussed in Note 4. *Business acquisitions and dispositions,* to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data.

Long-term debt, less current portion increased in 2009, as a result of the issuance of $400,000 of long-term debt in October 2008, which was used primarily to finance the acquisitions of MPC and MotoTron, including the repayment of certain obligations associated with those acquisitions, and $220,000 of long-term debt issued in April 2009 which was used primarily to finance the acquisition of HRT. See additional discussion in Note 11. *Long-term debt* to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data.

We have a $225,000 revolving credit facility, with an option to increase the amount to $350,000, subject to the lenders participation. In addition, we have additional short-term borrowing capabilities under various foreign lines of credit tied to net amounts on deposit at certain foreign financial institutions, which are generally reviewed annually for renewal. There were no borrowings under our revolving credit facility outstanding as of September 30, 2009 and September 30, 2008. Aggregate borrowings under our foreign lines of credit were $0 and $4,031 as of September 30, 2009 and September 30, 2008.

The debt agreements contain customary events of default, including certain cross default provisions related to Woodward s other outstanding debt arrangements. We were in compliance with all debt covenants at September 30, 2009.

Provisions of the debt agreements also include covenants customary to such agreements that require us to maintain specified minimum or maximum financial measures and place limitations on various investing and financing activities. The agreements also permit the lenders to accelerate repayment requirements in the event of a material adverse event. Our most restrictive covenants require us to maintain a minimum consolidated net worth, a maximum consolidated debt to consolidated operating cash flow ratio, and a maximum ratio of consolidated debt to EBITDA.

Other liabilities at September 30, 2009 include obligations for $38,173 of underfunded defined benefit pension plans and $42, 427 of underfunded retirement healthcare benefit plans. Required contributions to the plans in 2010 are expected to be $8,519. Actual required contributions will vary depending on, among other things, benefit payment experience, return on invested assets, changes in healthcare cost trends, and changes in U.S. or overseas regulatory environments.

In connection with the acquisition of HRT, we recorded approximately $50,952 of estimated pension benefit obligations related to a Textron-sponsored defined benefit plan that will be assumed by a Woodward defined benefit plan established for certain HRT employees (the Woodward HRT Plan), net of approximately $40,126 of the estimated related pension plan assets to be transferred directly to the trustee of the Woodward HRT Plan by the trustee of the related Textron-sponsored defined benefit plan. The value of the pension plan assets transferred was equal to the present value of the accumulated benefit obligation as of the April 3, 2009, the date of the HRT acquisition, based upon certain actuarial assumptions described in the acquisition agreement as adjusted for investment earnings and benefit payments between the date of the acquisition and the actual date of the funds transfer. Also, in connection with the acquisition of HRT, we assumed a retirement healthcare benefit obligation of approximately $2,251.

Commitments and contingencies at September 30, 2009, include various matters arising from the normal course of business.

We are currently involved in pending or threatened litigation or other legal proceedings regarding employment, product liability, and contractual matters arising from the normal course of business. We have accrued for individual matters that we believe are likely to result in a loss when ultimately resolved using estimates of the most likely amount of loss.

In addition, MPC Products, one of our recently acquired subsidiaries, has been subject to an investigation by the DOJ regarding certain of its government contract pricing practices prior to June 2005, and related administrative actions by the DOD. In October 2009, MPC Products reached an agreement with the DOJ to resolve the criminal and civil claims related to the investigation. As part of the settlement of the civil claims, MPC Products paid approximately $22,500 in compensation.

The civil settlement was approved by the District Court on October 7, 2009. In connection with the settlement of the criminal claims, on November 4, 2009, MPC Products pled guilty to one count of wire fraud related to its pre-June 2005 government contract pricing practices, and agreed to pay a fine of $2,500. Pursuant to the plea agreement, MPC Products was also placed on probation for two years. The criminal case plea agreement and sentencing were approved by the District Court, concluding the DOJ s investigation of these matters.

MPC Products government contract pricing practices after June 2005 were not the subject of the investigation, nor was MPC Products product quality. Prior to our acquisition of MPC Products, MPC Products implemented changes to address the accounting issues raised in the government investigation. MPC Products current accounting system has been in place for over four years and is approved by the Defense Contract Audit Agency. In addition to the changes implemented by MPC Products prior to the acquisition, Woodward has made significant progress since the acquisition in the integration of Woodward s policies and system of internal controls at MPC Products.

On October 7, 2009, Woodward and MPC Products entered into a three-year administrative agreement with the DOD. The administrative agreement lifted a suspension of MPC Products from receiving government contracts, which was in place from July 8, 2009 until October 7, 2009. Accordingly, MPC Products is again fully eligible to bid, receive and perform on U.S. government contracts. The administrative agreement requires, among other things, that Woodward and its affiliates, including MPC Products, implement certain enhancements to existing ethics and compliance programs and make periodic reports to the DOD.

The purchase price we paid in connection with the acquisition of MPC was reduced by $25,000 at the time of the acquisition, which represents the amounts discussed above.

We are involved in various litigation arising in the normal course of business including proceedings based on product liability claims, workers compensation claims, and alleged violations of various environmental laws. The Company is partially self-insured in the U.S. for healthcare and workers compensation up to predetermined amounts, above which third party insurance applies. Management regularly reviews the probable outcome of these proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and the established accruals for liabilities. While the outcome of pending proceedings cannot be predicted with certainty, management believes that any liabilities that may result from these proceedings will not have a material adverse effect on our liquidity, financial condition, or results of operations.

In the event of a change in control of the Company, as defined in certain executive officers employment agreements, we may be required to pay termination benefits to such executive officers.

Stockholders equity at September 30, 2009, increased $79,610 or 13% over the prior fiscal year. Increases due to net earnings and sales of treasury stock during the periods were partially offset by cash dividend payments.

In July 2006, the Board of Directors authorized the repurchase of up to $50,000 of our outstanding shares of common stock on the open market or in privately negotiated transactions over a three-year period (the 2006 Authorization) and in September 2007, the Board of Directors authorized a new stock repurchase of up to $200,000 of our outstanding shares of common stock on the open market or in privately negotiated transactions over a three-year period that will end in October 2010 (the 2007 Authorization).

Share purchases of treasury stock totaled to $39,801 in fiscal 2008 and $50,952 in fiscal 2007. We made no purchases under the 2007 Authorization during fiscal 2009. The balance remaining at both September 30, 2009 and September 30, 2008 on the 2007 authorization is $168,075. The 2006 Authorization was closed in fiscal 2008.

A two-for-one stock split was approved by stockholders at the 2007 annual meeting of stockholders on January 23, 2008. This stock split became effective for stockholders at the close of business on February 1, 2008. The effects of the stock split are reflected in the financial statements filed as part of this Form 10-K. In addition, in accordance with stock option plan provisions, the terms of all outstanding stock option awards were proportionately adjusted.

Cash Flows

	Year Ended September 30,		
	2009	2008	2007
Net cash provided by operating activities	$ 218,652	$ 125,354	$ 117,718
Net cash used in investing activities	(714,130)	(35,909)	(67,048)
Net cash provided by (used in) financing activities	487,940	(48,904)	(66,496)
Effect of exchange rate changes on cash and cash equivalents	(1,432)	(2,343)	3,743
Net change in cash and cash equivalents	(8,970)	38,198	(12,083)
Cash and cash equivalents at beginning of period	109,833	71,635	83,718
Cash and cash equivalents at end of period	$ 100,863	$ 109,833	$ 71,635

2009 Compared to 2008

Net cash flows provided by operating activities increased by $93,298 compared to fiscal 2008, primarily due to an increase in depreciation and amortization expense resulting from the assets recorded in connection with the acquisitions of MPC, HRT, and MotoTron, and a decrease in working capital resulting from managing our accounts receivable and inventory during this difficult economic period, partially offset by a decrease in net earnings.

As credit and the economy tighten, we believe adequate liquidity and cash generation will be important to the execution of our strategic initiatives. We believe that the restructuring and other cost reduction actions we have taken will continue to generate cash flow from operations. We generated approximately $25,000 in cost savings as a result of our restructuring activities during fiscal 2009. We believe that this level of cash generation, together with our existing current assets and available borrowings, will adequately support our operations and the strategic initiatives we have identified.

Net cash flows used in investing activities increased by $678,221 compared to fiscal 2008, primarily as a result of the acquisitions of MPC, MotoTron, and HRT, partially offset by the proceeds from the sale of the F&P product line during fiscal 2009.

Capital expenditures decreased by $8,569 in fiscal 2009 compared to fiscal 2008. We intend to remain focused on our low cost strategy, continuing our expansion in Poland, and supporting our wind growth through expansions in Colorado and China.

Future capital expenditures are expected to be funded through cash flows from operations, borrowings under our revolving credit facility, and available foreign lines of credit.

Net cash flows provided by financing activities increased by $536,844 compared to fiscal 2008, primarily as a result of $620,000 of debt issued to acquire MPC, MotoTron, and HRT, partially offset by payments on long-term debt and debt finance costs, as compared to fiscal 2008.

Overall, cash and cash equivalents decreased by $8,970 during fiscal 2009 to $100,863 at September 30, 2009. As a result of the increases in long-term debt and short-term borrowings, our debt to total capitalization ratio was 44.7% as of September 30, 2009, compared to 7.2% as of September 30, 2008. Share purchases of treasury stock totaled approximately $866 in fiscal 2009 compared with $39,801 in fiscal 2008.

2008 Compared to 2007

Net cash flows provided by operating activities increased by $7,636 compared to fiscal 2007, primarily due to an increase in net earnings and collections of income tax refunds, partially offset by an increase in working capital to support our growing business.

Net cash flows used in investing activities decreased by $31,139 compared to fiscal 2007, primarily as a result of a business acquisition during fiscal 2007.

Capital expenditures increased by $5,532 in fiscal 2008 compared to fiscal 2007 as we began to modernize the Loves Park facility in Illinois.

Net cash flows used in financing activities decreased by $17,592 from fiscal 2007, primarily as a result of reduced repurchases of treasury stock in fiscal 2008 and increases in excess tax benefits from stock compensation compared to fiscal 2007.

Overall, cash and cash equivalents increased by $38,198 during fiscal 2008 to $109,833 at year end. The debt to total capitalization ratio was 7.2% as of September 30, 2008, compared to 10.9% as of September 30, 2007. Share purchases of treasury stock totaled approximately $39,801 in fiscal 2008 compared with $50,952 in fiscal 2007.

Off-Balance Sheet Arrangements and Contractual Obligations

Contractual Obligations

A summary of our consolidated contractual obligations and commitments as of September 30, 2009 is as follows:

Year ending September 30,	2010	2011	2012	2013	2014	Thereafter
			(In thousands)			
Long-term debt principal	$ 45,441	$ 36,441	$ 18,385	$ 7,500	$ 214,375	$ 250,000
Interest on debt obligations	29,113	27,296	26,226	25,705	17,352	51,209
Operating leases	8,032	7,097	5,065	4,274	3,891	12,032
Payments to customers	3,075					
Purchase obligations	152,339	15,284	3,001	308		
Other	236					19,547
Total	$ 238,236	$ 86,118	$ 52,677	$ 37,787	$ 235,618	$ 332,788

Purchase obligations include amounts committed under legally enforceable contracts or purchase orders for goods and services with defined terms as to price, quantity, delivery, and termination liability.

Interest obligations on floating rate debt instruments are calculated for future periods using interest rates in effect as of September 30, 2009. See Note 11. *Long-term debt*, to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data for further details on our long-term debt.

Payments to customers reflect contractual payment obligations, which may be subsequently recovered, and exclude payments of future rebate obligations to customers that will likely be paid in connection with future sales activity.

The other obligations amount represents our best reasonable estimate for uncertain tax positions at this time and may change in future periods, as the timing of the payments and whether such payments will actually be required cannot be reasonable estimated.

The above table does not reflect the following items:

Contributions to our retirement pension benefit plans, which we estimate will total approximately $5,750 in 2010. As of September 30, 2009 our pension plans were underfunded by $38,173 based on projected benefit obligations. Statutory pension contributions in future years will vary as a result of a number of factors, including actual plan asset returns and interest rates.

Contributions to our healthcare benefit plans which we estimate will total $2,769 in 2010. Retirement healthcare contributions are made on a pay-as-you-go basis as payments are made to healthcare providers, and such contributions will vary as a result of changes in the future cost of healthcare benefits provided for covered retirees.

Business commitments made to certain customers to perform under long-term product development projects, some of which may result in near-term financial losses. Such losses, if any, are recognized when they become likely to occur.

Guarantees and letters of credit totaling approximately $11,388 were outstanding as of September 30, 2009, some of which were secured by cash and cash equivalents at financial institutions or by Woodward line of credit facilities.

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Recently Adopted and Issued But Not Yet Effective Accounting Standards

Accounting changes and recently adopted accounting standards

In June 2009, the Financial Accounting Standards Board (FASB) established the FASB Accounting Standards Codification™ (the Codification) as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the United States Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. The Codification did not have a material impact on our Consolidated Financial Statements upon adoption. Accordingly, our disclosures will explain accounting concepts rather than cite specific topics of U.S. GAAP.

In September 2006, the FASB issued authoritative guidance which defines fair value, establishes a framework for measuring fair value, and requires additional disclosures about a company s financial assets and liabilities that are measured at fair value. This guidance does not change existing guidance on whether or not an instrument is carried at fair value. In February 2008, the FASB issued authoritative guidance which delays the effective date of this guidance for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008. In October 2008, the FASB issued additional authoritative guidance which clarifies the application of determining fair value when the market for a financial asset is inactive. Specifically, this guidance clarifies how (1) management s internal assumptions should be considered in measuring fair value when observable data are not present, (2) observable market information from an inactive market should be taken into account, and (3) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and unobservable data to measure fair value. On October 1, 2008, we adopted the measurement and disclosure impact of this guidance only with respect to financial assets and liabilities. The adoption increased our fair value disclosures but had no impact on our financial position or results of operations. We have provided the disclosures required in Note 22. *Fair value measurements* to the Consolidated Financial Statements.

On October 1, 2009, we will adopt the measurement and disclosure impact of fair value with respect to non-financial assets and liabilities. The adoption had no impact on our financial position and results of operations and would have required no additional disclosures in these Consolidated Financial Statements if adopted as of September 30, 2009.

In February 2007, the FASB issued authoritative guidance that expands the use of fair value accounting providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. A company may choose, at specified election dates, to measure eligible items at fair value and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The guidance became effective for us on October 1, 2008. We have not elected to apply this guidance to any eligible items as of September 30, 2009.

In June 2007, the FASB issued authoritative guidance that addresses accounting for the non-refundable portion of a payment made by a research and development entity for future research and development activities. The guidance concludes that an entity must defer and capitalize non-refundable advance payments made for research and development activities, and expense these amounts as the related goods are delivered or the related services are performed. We adopted this guidance beginning October 1, 2008. The adoption had no impact on our Consolidated Financial Statements.

In March 2008, the FASB issued authoritative guidance that improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. The new guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. This guidance became effective for us on January 1, 2009. We adopted the guidance effective January 1, 2009. See Note 13. *Derivative instruments and hedging activities*, to the Consolidated Financial Statements for our disclosures about our derivative instruments.

In December 2008, the FASB issued authoritative guidance that increases disclosure requirements for public companies related to transfers and servicing of financial assets as well as involvement with variable interest entities.

The guidance is effective for reporting periods (interim and annual) that end after December 15, 2008. The guidance became effective for us on October 1, 2008. The adoption of this guidance had no impact on our Consolidated Financial Statements.

In April 2009, the FASB issued authoritative guidance that principally requires publicly traded companies to provide disclosures about fair value of financial instruments in interim financial information. The adoption of this disclosure-only guidance for our September 30, 2009 Consolidated Financial Statements did not have an impact on our consolidated financial results. We have provided the disclosures required in Note 21. *Financial Instruments* to the Consolidated Financial Statements.

In May 2009, the FASB issued authoritative guidance to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events, whether that evaluation date is the date of issuance or the date the financial statements were available to be issued, and alerts all users of financial statements that an entity has not evaluated subsequent events after that evaluation date in the financial statements being presented. The guidance is effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009. The guidance became effective for us on April 1, 2009. The adoption of this guidance had no impact on our Consolidated Financial Statements.

In August 2009, the FASB issued authoritative guidance to provide clarification on measuring liabilities at fair value when a quoted price in an active market is not available. In these circumstances, a valuation technique should be applied that uses either the quote of the liability when traded as an asset, the quoted prices for similar liabilities or similar liabilities when traded as assets, or another valuation technique consistent with existing fair value measurement guidance, such as an income approach or a market approach. The new guidance also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. We adopted this guidance effective July 1, 2009. The adoption of this guidance did not affect our Consolidated Financial Statements or the estimates of the fair value of liabilities included in Note 21. *Financial Instruments* .

Issued but not yet effective accounting standards

In November 2007, the FASB issued authoritative guidance to address accounting for collaborative arrangement activities that are conducted without the creation of a separate legal entity for the arrangement. Revenues and costs incurred with third parties in connection with the collaborative arrangement should be presented gross or net by the collaborators pursuant to pre-existing accounting standards. Payments to or from collaborators should be presented in the income statement based on the nature of the arrangement, the nature of the company s business and whether the payments are within the scope of other accounting literature. Other detailed information related to the collaborative arrangement is also required to be disclosed. The requirements under this guidance must be applied to collaborative arrangements in existence at the beginning of our fiscal 2010 using a modified version of retrospective application. We are currently not a party to significant collaborative arrangement activities, as defined by this guidance, and therefore, we do not expect the adoption of this guidance to have an impact on our Consolidated Financial Statements.

In December 2007, the FASB issued authoritative guidance to affirm that the acquisition method of accounting (previously referred to as the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This guidance defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. Among other requirements, this guidance requires the acquiring entity in a business combination to recognize the identifiable assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at their acquisition-date fair values, with limited exceptions; acquisition-related costs generally will be expensed as incurred. This guidance requires certain financial statement disclosures to enable users to evaluate and understand the nature and financial effects of the business combination. This guidance must be applied prospectively to business combinations that are consummated on or after October 1, 2009. Accordingly, we will record and disclose business combinations under the revised standard for transactions consummated, if any, on or after October 1, 2009. In addition, adjustments of certain income tax balances related to acquired deferred assets, including those acquired prior to adoption of this new authoritative guidance, shall be reported as an increase or decrease to income tax expense. Accordingly, we will record adjustments of certain income tax balances under the revised standard beginning October 1, 2009.

In December 2007, the FASB issued authoritative guidance to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Among other requirements, this guidance clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is to be reported as a separate component of equity in the consolidated financial statements. This guidance also requires consolidated net income to include the amounts attributable to both the parent and the noncontrolling interest and to disclose those amounts on the face of the consolidated statement of earnings. This guidance must be applied prospectively for fiscal years, and interim periods within those fiscal years, beginning in our fiscal 2010, except for the presentation and disclosure requirements, which will be applied retrospectively for all periods presented. Beginning October 1, 2009, noncontrolling interests held by third parties will be presented in the Consolidated

Balance Sheets within equity, but separate from the reporting entities equity. We anticipate that approximately $2,300 will be reclassified within our Consolidated Balance Sheets from other liabilities to stockholders equity, with restatement of financial statements for periods ending before the October 1, 2009 adoption date.

In April 2008, the FASB issued authoritative guidance to amend the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset and to require additional disclosures. The guidance for determining useful lives must be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements must be applied prospectively to all intangible assets recognized as of the effective date. This guidance is effective for fiscal years beginning after December 15, 2008 (fiscal year 2010 for us). We do not expect the adoption of this guidance to have a significant impact on our Consolidated Financial Statements.

In November 2008, the FASB issued authoritative guidance regarding the accounting for defensive intangible assets. Defensive intangible assets are assets acquired in a business combination that the acquirer (a) does not intend to use or (b) intends to use in a way other than the assets highest and best use as determined by an evaluation of market participant assumptions. While defensive intangible assets are not being actively used, they are likely contributing to an increase in the value of other assets owned by the acquiring entity. This guidance will require defensive intangible assets to be accounted for as separate units of accounting at the time of acquisition and the useful life of such assets would be based on the period over which the assets will directly or indirectly affect the entity s cash flows. This guidance is to be applied prospectively for defensive intangible assets acquired on or after October 1, 2009 and did not have an impact on our September 30, 2009 Consolidated Financial Statements. Accordingly, we will record and disclose defensive intangible assets under the revised standard for transactions consummated, if any, on or after October 1, 2009.

In November 2008, the FASB issued authoritative guidance addressing whether securities granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two class method. This guidance became effective for us beginning October 1, 2009. Early application is not permitted. We anticipate that, upon the adoption of this guidance, all outstanding restricted stock will be included in the denominator of both the basic and fully diluted earnings per share calculations in the Consolidated Financial Statements. This change, which is required to be applied retrospectively, is not expected to have a significant impact on the calculation of future or historical earnings per share.

In December 2008, the FASB issued authoritative guidance to require employers to provide additional disclosures about plan assets of a defined benefit pension or other post-retirement plan. These disclosures should principally include information detailing investment policies and strategies, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets and an understanding of significant concentrations of risk within plan assets. While earlier application of this guidance is permitted, the required disclosures shall be provided for fiscal years ending after December 15, 2009 (our fiscal 2010, the anticipated period of adoption). Upon initial application, this guidance is not required to be applied to earlier periods that are presented for comparative purposes. We do not expect this guidance to have a material impact on our Consolidated Financial Statements.

In April 2009, the FASB issued authoritative guidance to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably determined. If the fair value of such assets or liabilities cannot be reasonably determined, then they would generally be recognized in accordance with certain other pre-existing accounting standards. This guidance also amends the subsequent accounting for assets and liabilities arising from contingencies in a business combination and certain other disclosure requirements. This guidance became effective for assets or liabilities arising from contingencies in business combinations that are consummated on or after October 1, 2009 and did not have an impact on our September 30, 2009 Consolidated Financial Statements. Accordingly, we will record and disclose assets acquired and liabilities assumed in a business combination that arise from contingencies under the revised standard for transactions consummated, if any, on or after October 1, 2009.

In June 2009, the FASB issued authoritative guidance to eliminate the exception to consolidate a qualifying special-purpose entity, change the approach to determining the primary beneficiary of a variable interest entity and require companies to more frequently re-assess whether they must consolidate variable interest entities. Under the new guidance, the primary beneficiary of a variable interest entity is identified qualitatively as the enterprise that has both (a) the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance, and (b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. This guidance becomes effective for our fiscal year 2011 and interim reporting periods thereafter. We do not expect this guidance to have a material impact on our Consolidated Financial Statements.

In June 2009, the FASB issued authoritative guidance to require an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This guidance requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. This guidance will be effective for fiscal years beginning after November 15, 2009 (fiscal year 2011 for us). We are currently assessing the impact that this guidance may have on our Consolidated Financial Statements.

In October 2009, the FASB issued authoritative guidance that enables vendors to account for products or services sold to customers (deliverables) separately rather than as a combined unit, as was generally required by past guidance. The revised guidance provides for two significant changes to the existing multiple element revenue arrangements guidance. The first change relates to the determination of when the individual deliverables included in a multiple element arrangement may be treated as separate units of accounting. The second change modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. The first change will likely result in the requirement to separate more deliverables within an arrangement, ultimately leading to less revenue deferral. Together, these changes are likely to result in earlier recognition of revenue and related costs for multiple-element arrangements than under previous guidance. This guidance also significantly expands the disclosures required for multiple-element revenue arrangements. The guidance is required to be adopted in fiscal years beginning on or after June 15, 2010 (fiscal year 2011 for us) but early adoption is permitted. We will adopt this guidance on a prospective basis on October 1, 2009 (the first day of fiscal year 2010). The adoption of this guidance is not expected to have a significant impact on our Consolidated Financial Statements.

In October 2009, the FASB issued authoritative guidance that changes the accounting model for revenue arrangements that include both tangible products and software elements so that tangible products containing software components and nonsoftware components that function together to deliver the tangible product s essential functionality are no longer within the scope of the software revenue guidance in Accounting Standards Codification (ASC) Subtopic 985-605. In addition, the guidance requires that hardware components of a tangible product containing software components always be excluded from the software revenue guidance. The guidance is required to be adopted in fiscal years beginning on or after June 15, 2010 (fiscal year 2011 for us) but early adoption is permitted. We will adopt this guidance, on a prospective basis, on October 1, 2009 (the first day of fiscal year 2010). The adoption of this guidance is not expected to have a significant impact on our Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk and Risk Management

In the normal course of business, we have exposures to interest rate risk from our long-term and short-term debt, discount rates and changes in healthcare cost trend rates from our post-retirement benefit plans, and foreign currency exchange rate risk related to our foreign operations, and foreign currency transactions.

Interest Rate Risk

Derivative instruments utilized by us are viewed as risk management tools, involve little complexity, and are not used for trading or speculative purposes. To manage interest rate risk related to the $400,000 of long-term debt issued in October 2008, we used a treasury lock which locked in interest rates on the then future debt. The treasury lock agreement was designated as a cash flow hedge against interest rate risk on a portion of the debt issued in October 2008. Similarly, we used a LIBOR lock agreement with a notional amount of $50,000 which hedged the risk of variability in cash flows over a seven-year period related to future interest payments of a portion of the anticipated long-term debt issued in April of 2009 in connection with the acquisition of HRT.

A portion of our long and short-term debt is sensitive to changes in interest rates. As of September 30, 2009, our outstanding debt included $189,375 of term loans and $0 in advances on our revolving credit facility with interest rates that fluctuate with market rates. A hypothetical 1% increase in the assumed effective interest rates that apply to the variable rate loans outstanding on September 30, 2009 would cause our annual interest expense to increase approximately $1,894. A hypothetical 0.25% decrease in interest rates that apply to our variable loans outstanding on September 30, 2009, which would effectively reduce the variable component of the applicable interest rates to 0%, would decrease our annual interest expense by approximately $473.

Discount Rate and Changes in Healthcare Cost Trend Rate Exposure

The actuarial assumptions used to calculate the funding status of our post-retirement benefit plans and future returns on associated plan assets are sensitive to changes in interest rates and other rates. The discount rate assumption used to value the retirement pension benefit plans was 5.5% in the U.S. and 4.7% in other countries. The discount rate assumption used to value the retirement healthcare benefit plans was 5.5%. Interest rates have been volatile during the past year and certain sources project that rates will increase in the U.S. during the next few years.

For retirement healthcare benefits, Woodward assumed net healthcare cost trend rates of 9% in 2010, decreasing gradually to 5% in 2018, and remaining at 5% thereafter. Healthcare costs have generally trended upward in recent years, sometimes by amounts greater than 5%. Significant changes in trend rates, either upward or downward, could significantly impact the amounts of liabilities recorded and future cash flows of the plans.

The following information illustrates the sensitivity of the net periodic benefit cost and the projected accumulated benefit obligation to a change in the discount rate assumed or in future healthcare cost trends. Amounts relating to foreign plans are translated at the spot rate on September 30, 2009. The sensitivities reflect the impact of changing one assumption at a time and are specific to base conditions at September 30, 2009. It should be noted that economic factors and conditions often affect multiple assumptions simultaneously and the effects of changes in assumptions are not necessarily linear.

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		Increase/(Decrease) in		
Assumption	Change	2010 Net Periodic Benefit Cost	2009 Projected Service and Interest Costs	Accumulated Post Retirement Benefit Obligation
Retirement Pension Benefits:				
Change in discount rate	1% increase	$(1,990)	$ (212)	$(20,362)
	1% decrease	2,301	153	25,109
Retirement Healthcare Benefits:				
Change in discount rate	1% increase	N/A	N/A	(3,765)
	1% decrease	N/A	N/A	4,437
Change in healthcare cost trend rate	1% increase	N/A	225	4,521
	1% decrease	N/A	(196)	(3,906)

Foreign Currency Exchange Rate Exposure

We are impacted by changes in foreign currency exchange rates through sales and purchasing transactions when we sell product in currencies different from the currency in which product and manufacturing costs were incurred. The functional currencies of our worldwide facilities primarily include the USD, the Euro, and the GBP. Our purchasing and sales activities are primarily denominated in the USD, the Euro, and the GBP. We may be impacted by changes in the relative buying power of our customers, which may impact sales volumes either positively or negatively. As these currencies fluctuate against each other, and other currencies, we are exposed to foreign currency exchange rate risk on sales, purchasing transactions, and labor.

Our reported financial results of operations, including the reported value of our assets and liabilities, are also impacted by changes in foreign currency exchange rates. The assets and liabilities of substantially all of our subsidiaries outside the U.S. are translated at period end rates of exchange for each reporting period. Earnings and cash flow statements are translated at weighted-average rates of exchange. Although these translation changes have no immediate cash impact, the translation changes may impact future borrowing capacity, debt covenants, and overall value of our net assets.

Currency exchange rates vary daily and often one currency strengthens against the USD while another currency weakens. Because of the complex interrelationship of the worldwide supply chains and distribution channels, it is difficult to quantify the impact of a particular change in exchange rates. We estimate that a 10% decrease in the purchasing power of the USD against all other currencies for one full year would decrease both net sales and pretax earnings by approximately 3%. We estimate that a 10% increase in the purchasing power of the USD against all other currencies for one full year would decrease sales by approximately 3% and decrease pre-tax earnings by approximately 11%.

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Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Woodward Governor Company
Fort Collins, Colorado

We have audited the accompanying consolidated balance sheets of Woodward Governor Company and subsidiaries (the Company) as of September 30, 2009 and 2008, and the related consolidated statements of earnings, stockholders equity, and cash flows for each of the two years in the period ended September 30, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. The consolidated financial statements of the Company for the year ended September 30, 2007, before the effects of the retrospective adjustment for the two-for-one stock split and the retrospective adjustments to the disclosures for a change in the composition of reportable segments discussed in Notes 1, *Operations and summary of significant accounting policies,* and 23, *Segment information*, respectively, to the consolidated financial statements, were audited by other auditors whose report, dated November 29, 2007, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of Woodward Governor Company and subsidiaries as of September 30, 2009 and 2008, and the results of their operations and their cash flows for each of the two years in the period ended September 30, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule for the two years in the period ended September 30, 2009, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 5, *Income taxes,* to the consolidated financial statements, the Company changed its method of accounting for uncertain tax positions on October 1, 2007 in accordance with the Financial Accounting Standard Board s uncertainty in income taxes components of ASC 740, Income Taxes.

We also have audited the adjustments to the 2007 consolidated financial statements to retrospectively apply the two-for-one stock split as discussed in Note 1, *Operations and summary of significant accounting policies,* to the consolidated financial statements. Our procedures included (1) comparing the amounts shown in the earnings per share disclosure for 2007 to the Company s underlying accounting analysis, (2) comparing the previously reported shares outstanding and statement of earnings amounts per the Company s accounting analysis to the previously issued consolidated financial statements, and (3) recalculating the additional shares to give effect to the stock split and testing the mathematical accuracy of the underlying analysis. In our opinion, such retrospective adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2007 consolidated financial statements of the Company other than with respect to the retrospective adjustments related to the two-for one stock split and the change in composition of reportable segments described below and, accordingly, we do not express an opinion or any other form of assurance on the 2007 consolidated financial statements taken as a whole.

We also have audited the adjustments to the 2007 consolidated financial statements to retrospectively adjust the disclosures for a change in the composition of reportable segments in 2009, as discussed in Notes 1, *Operations and summary of significant accounting policies,* and 23, *Segment information, respectively,* to the consolidated financial statements. Our procedures included (1) comparing the adjustment amounts of segment net sales, depreciation and amortization, capital expenditures, and assets to the Company s underlying analysis and (2) testing the mathematical accuracy of the reconciliations of segment amounts to the consolidated financial statements. In our opinion, such retrospective adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2007 consolidated financial statements of the Company other than with respect to the retrospective adjustments related to the change in composition of reportable segments and the two-for-one stock split described above and, accordingly, we do not express an opinion or any other form of assurance on the 2007 consolidated financial statements taken as a whole.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of September 30, 2009, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 19, 2009 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Denver, Colorado
November 19, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of Woodward Governor Company

In our opinion, the consolidated statements of earnings, stockholders equity and cash flows for the year ended December 31, 2007, before the effects of the adjustments to retrospectively reflect the two-for-one stock split and the change in the composition of reportable segments described in Notes 1 and 23, respectively, present fairly, in all material respects, the results of operations and cash flows of Woodward Governor Company and its subsidiaries for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America (the 2007 financial statements before the effects of the adjustments discussed in Notes 1 and 23 are not presented herein). In addition, in our opinion, the financial statement schedule for the year ended December 31, 2007 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit, before the effects of the adjustments described above, of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively reflect the two-for-one stock split or the change in the composition of reportable segments described in Notes 1 and 23, respectively, and accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by other auditors.

/s/ PricewaterhouseCoopers LLP

Chicago, Illinois
November 29, 2007

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WOODWARD GOVERNOR COMPANY
CONSOLIDATED STATEMENTS OF EARNINGS
(in thousands, except per share amounts)

	Year Ended September 30, 2009	2008	2007
Net sales	$ 1,430,125	$ 1,258,204	$ 1,042,337
Costs and expenses:			
Cost of goods sold	1,029,095	882,996	728,820
Selling, general and administrative expenses	128,682	115,399	111,297
Research and development costs	78,536	73,414	65,294
Amortization of intangible assets	26,120	6,830	7,496
Restructuring and other charges	15,159		
Interest expense	33,629	3,834	4,527
Interest income	(1,131)	(2,120)	(3,604)
Other income	(3,081)	(4,685)	(4,186)
Other expense	704	626	705
Total costs and expenses	1,307,713	1,076,294	910,349
Earnings before income taxes	122,412	181,910	131,988
Income taxes	(28,060)	(60,030)	(33,831)
Net earnings	**$ 94,352**	**$ 121,880**	**$ 98,157**
Earnings per share:			
Basic	$ 1.39	$ 1.80	$ 1.43
Diluted	$ 1.37	$ 1.75	$ 1.39
Weighted Average Common Shares Outstanding:			
Basic	67,821	67,564	68,489
Diluted	69,033	69,560	70,487
Cash dividends per share	$ 0.240	$ 0.235	$ 0.215

See accompanying Notes to Consolidated Financial Statements.

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WOODWARD GOVERNOR COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	At September 30, 2009	At September 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 100,863	$ 109,833
Accounts receivable, less allowance for losses of $2,660 and $1,648, respectively	209,626	178,128
Inventories	302,339	208,317
Income taxes receivable	16,302	
Deferred income tax assets	45,413	25,128
Other current assets	21,701	16,649
Total current assets	696,244	538,055
Property, plant and equipment, net	208,885	168,651
Goodwill	442,802	139,577
Intangibles assets, net	327,773	66,106
Deferred income tax assets	8,200	6,208
Other assets	12,518	8,420
Total assets	$ 1,696,422	$ 927,017
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	$	$ 4,031
Current portion of long-term debt	45,569	11,560
Accounts payable	81,108	65,427
Income taxes payable	8,084	2,235
Accrued liabilities	127,317	85,591
Total current liabilities	262,078	168,844
Long-term debt, less current portion	526,771	33,337
Deferred income tax liabilities	86,048	27,513
Other liabilities	112,287	67,695
Total liabilities	987,184	297,389
Commitments and contingencies (Notes 5, 16, 19, and 20)		
Stockholders equity:		
Preferred stock, par value $0.003 per share, 10,000 shares authorized, no shares issued		
Common stock, par value $0.001455 per share, 150,000 share authorized, 72,960 shares issued and outstanding	106	106
Additional paid-in capital	73,197	68,520
Accumulated other comprehensive earnings	9,908	20,319
Deferred compensation	4,904	5,283

Retained earnings	741,505	663,442
	829,620	757,670
Treasury stock at cost, 4,621 shares and 5,261 shares, respectively	(115,478)	(122,759)
Treasury stock held for deferred compensation, at cost, 389 shares and 404 shares, respectively	(4,904)	(5,283)
Total stockholders equity	709,238	629,628
Total liabilities and stockholders equity	$ 1,696,422	$ 927,017

See accompanying Notes to Consolidated Financial Statements.

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WOODWARD GOVERNOR COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOW
(in thousands)

	Year Ended September 30,		
	2009	**2008**	**2007**
Cash flows from operating activities			
Net earnings	$ 94,352	$ 121,880	$ 98,157
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	63,948	35,450	32,924
Post retirement settlement gain			(871)
Contractual pension termination benefit			715
Net (gain) loss on sale of property, plant and equipment	(188)	1,229	(199)
Stock-based compensation	5,499	4,588	3,849
Excess tax benefits from stock-based compensation	(2,695)	(15,355)	(9,787)
Deferred income taxes	17,233	10,960	12,473
Reclassification of unrealized losses on derivatives to earnings	237	204	247
Changes in operating assets and liabilities, net of business acquisitions:			
Accounts receivable	37,760	(26,470)	(20,765)
Inventories	52,586	(36,661)	(8,592)
Accounts payable and accrued liabilities	(47,682)	6,078	16,962
Current income taxes	(4,034)	27,089	2,952
Other	1,636	(3,638)	(10,347)
Net cash provided by operating activities	218,652	125,354	117,718

Quarter
3

Offering licensing agreements on the use of trademarks

Direct sales, %	100
	100
Issuer s own trade network, %	
Controlled trade network, %	

Character of Sales:

Seasonal activity:

The Issuer makes no cyclic or seasonal sales of services. The WBD Group s sales of diary products are of a seasonal character. Dairy products are in maximum demand in winter when domestic milk production hits rock bottom. Contrariwise, in summer demand for dairy products declines while the production of raw milk is at a maximum.

Juice sales are definitely seasonal. They go up in spring and especially during the period preceding the New Year holidays. Seasonal peaks fall on April and December. In spring the expansion of sales is conditioned by consumers care for their health; juice is regarded as a natural addition to fruits, as the only source of vitamins and a valuable product for daily consumption. The traditional sales spurt in December positively correlates with the general tendency toward intensive retail turnover before the New Year holidays and the population s higher purchasing power.

Production and Sales Costs Structure

Structure of the Issuer s Costs for the Production and Sales of Products (Works, Services) for Specified Items (percentage of total cost):

Items	**Year 1999**	**Year 2000**	**Year 2001**	**Quarter 3**
Raw materials and materials, %				
Purchased components and semifinished products, %				
Production-related works and services performed by outsiders, %				
Fuel, %				
Energy, %				
Salaries, %			29.31	8.8
Loan interest, %				
Rental payment, %			1.62	0.02
Welfare deductions, %			10.5	1.18
Fixed assets depreciation, %				
Taxes included in production cost, %			6.34	0.57
Other costs , %			52.23	89.43
Intangible assets amortization, %			1.98	0.03
Innovation awards, %				
Mandatory insurance payments, %				

Hospitality costs, %				
Payment for outsiders services, %			50.25	69.05
Per diem and relocation allowances, %				
Off-budget funds allocations, %				
Other costs, %				20.35
Total production and sales costs, %	100	100	100	100
Sales proceeds, %			15.78	175.24

The issuer s suppliers whose share is no less than 10 percent of total tangible assets supplies:

None.

The Issuer does not have any suppliers of tangible assets. The Issuer is not engaged in import supplies. Raw materials for the WBD Group are supplied by Russian and CIS producers (Kyrghyzstan, Ukraine). The main raw material for dairy industry is raw milk produced in the territory of Russia. The raw materials for juices and juice-containing drinks are fruit and berry concentrates, the origin of which depends on the area of their growth (e.g. apples in Southern Russia, tomatoes in Eastern and Central Europe). The Tetra Pak company is one of the leading suppliers of packaging for the WBD Group. These sources will remain available in the future.

Markets for the Issuer s Products (Works, Services).

Consumers whose share in trade is no less than 10 percent of the Issuer s total sales proceeds:

Full name of a Company	**Share, %**
Close Joint-Stock Company Grande-V	14
Close Joint-Stock Company Lianozovsky	14
Close Joint-Stock Company Wimm-Bill-Dann Trading Company	12
Limited Liability Company Ramenskoye Moloko	14
Limited Liability Company Fruktola	14

Markets.

Due to the specifics of the Issuer s primary activity, the market for its services is determined by the number and location of the WBD Group facilities. A decline in the financial position of WBD Group businesses may be the only negative factor influencing the Issuer s market of services. Today the WBD Group s main market is the territory of the Russian Federation. The Issuer intends to expand the market geographically. The only major factor of possible decrease in demand for the Group s products would be a sharp decrease in the population s purchasing capacity, since the Group s products belong to the

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convenience category. The possibility of stronger competition on the part of both domestic and foreign manufacturers of dairy and juice products is another negative factor.

Stock Management Practices.

The Issuer has no stocks and hence no stock management. The Issuer s policy in relation to working capital is aimed to increase its turnover and keep its amount at a minimum level necessary for current operations.

Major Competitors.

By virtue of its primary mission control, management, and services in the interests of the WBD Group the Issuer does not have competitors. Consequently, it would be impossible to analyze the Issuer s market share and its competitiveness factors in terms of their importance and with an allowance for factor ratings.

The principal competitors of the WBD Group on traditional and enriched dairy products markets include Russian producers such as Petmol (St. Petersburg), Ostankinsky, Ochakovsky, and Cherkizovsky Dairies (Moscow) as well as small manufacturers in Russian regions. On the market of vitamin-fortified dairy products, the WBD Group competes mainly with Danone. As for yogurts, milk desserts, and, to some extent, dairy products for children, the main competitors of the WBD Group are foreign companies such as Danone, Campina, Onken u Ehrmann.

In the Issuer s opinion, the WBD Group is expected to compete with the following companies on the dairy market in the near future:

1) Danone of France: the most active foreign company in Russia, pursuing an aggressive advertisement policy. It owns a dairy in the Volga region that produces natural yogurt, fruit-flavored yogurt, and kefir and a dairy in the Moscow region. The company s products, both imported and made in Russia, are sold under the Danone trademark all over the Russian Federation through its own distribution network. According to the study conducted by AC Nielsen in nine Russian cities, in 2001 Danone s sales in the yogurt and milk dessert segment amounted to 12% and in vitamin-fortified dairy products, 5%;

2) Petmol of St. Petersburg: produces a wide variety of dairy products, concentrating however on yogurts and desserts. Petmol s shares are publicly quoted at the Russian stock exchange. According to the study conducted by AC Nielsen in nine Russian cities, in 2001 the company s share was 9% in the traditional dairy segment and 8% in the yogurt and milk dessert segment while the share of Parmalat in the traditional dairy segment reached 2%;

3) Ochakovsky Dairy of Moscow: a major dairy producer in Russia and principal competitor of the WBD Group in Moscow. Its products are very popular among consumers. According to the study conducted by AC Nielsen in nine Russian cities, in 2001 the company s share was 5% in the traditional dairy segment and 4% in the enriched products segment.

The shares of the WBD Group and its principal competitors for enlarged product categories on the dairy market, % (as of September 2002, according to AC Nielsen research):

Item	**WBD Group**	**Danone**	**Petmol**	**Ochakovsky Dairy**
Yogurts and milk desserts	44	12	7	
Traditional dairy products	33		8	4
Enriched products	44	10	10	4
The market s total	36	3	8	3

The principal competitors of the WBD Group on the domestic juice market include Parmalat of Italy and medium- and small-size Russian producers such as:

1) Multon of St. Petersburg: its share on the national and Moscow markets was 29 and 18.7% accordingly in 2001 as shown by the study conducted by AC Nielsen in eleven Russian cities. Dobry and Niko juice brands and other products of the company appeared on the Moscow market in 1998 and have won considerable market shares since then, primarily, due to an aggressive pricing policy;

2) Lebedyansky of the Lipetsk region: the company s share on the national and Moscow markets was 10.9 and 14.5% accordingly in 2001 as shown by the study conducted by AC Nielsen in eleven Russian cities. Its Tonus and Ya brands have become very popular among consumers and effectively compete with juices produced by local manufacturers;

3) Nidan-Ekofrukt of Novosibirsk: a Russian-US joint venture whose share was 6.4% both on the national and Moscow markets in 2001 according to AC Nielsen s study carried out in eleven large Russian cities.

The shares of the WBD Group and its principal competitors on the juice market, % (as of September 2002, according to AC Nielsen s study conducted in eleven large Russian cities):

Juice market	**WBD Group**	**Multon**	**Lebedyansky**	**Nidan**	**Others**
Market share	35	28.7	19.4	5.8	11.1

The WBD Group gets mineral water from an underground spring in Valdai. The region is famous for top-quality mineral water. There is a facility in Nizhny Novgorod that bottles small amounts of mineral water. The WBD Group is planning to start a serial production of mineral water early in 2003 and full-scale production in mid 2003. Historically, the consumption of noncarbonated mineral water has not been widespread in Russia. The situation, however, is radically changing under the effect of environmental factors. The consumption of bottled drinking water is growing rapidly in large Russian cities. The mineral water market is expanding not only in terms of volume but also in terms of a wider variety of products and new trademarks. Furthermore, the number of superior quality brands is growing, and the share of imported brands is going down. In the Issuer s opinion, the WBD Group s principal competitors include Aqua Minerale (Pepsi trademark), BonAqua (Coca-Cola trademark) as well as Borzhomi, Narzan, and Svyatoi Istochnik produced at CIS facilities. The WBD Group is planning to position its new trademark in modern style by emphasizing the mineral origin of the water and produce it with different degrees of carbonation (still, medium-carbonated, and highly carbonated) in bottles of different sizes for consumers better choice.

Analysis of the WBD Group s Competitive Factors.

The WBD Group has a number of advantages over other Russian producers: high productive capacity, superior quality of products, high-level innovation, and opportunities for new products development and marketing. Other competitive advantages which, in the Issuer s opinion, enable the WBD Group to retain its leading position on the Russian market, include: strong and diversified trademarks, unobstructed access to raw material sources, extensive sales network, emphasis on the development of new products, modern manufacturing facilities and technologies, external financing opportunities, and efficient leadership. The WBD Group intends to take advantage of those opportunities by pursuing a sales promotion strategy focused on superior quality products and development of new products that would not be inferior to their Western analogs in taste and consistence.

Some Russian producers, however, have certain advantages over the WBD Group, related to a lower cost of production and lower advertisement and shipment expenses. Recent industrial tendencies also show that the consolidation of the industry may lead to the emergence of large domestic producers capable of competing with the WBD Group on the market.

Foreign dairy producers have a large advertisement budget and advanced manufacturing know-how permits them to offer top-quality products made on the basis of up-to-date technologies through well-established sales systems. In the past foreign companies focused on concrete market niches, more often than not, on the premium segment (upper price range) whereas today they are increasingly turning to products for the average consumer with an average income. Besides, such companies as Danone, Parmalat, Campina, and Erhmann have begun investing in Russian manufacturing businesses, which may reduce the competitiveness of WBD Group products, for the competitors now have an opportunity to produce their commodities in Russia. For example, Danone, owning two Russian diaries, has put several yogurt brands on the Russian market, some of them developed specifically for Russian consumers. Campina of Netherlands, also owning a dairy in Russia, makes fresh yogurts and yogurts with a long shelf life. Erhmann of Germany makes yogurt at a Russian dairy, and Onken and Pascual, also foreign companies, are planning to open manufacturing facilities in Russia. As a result of the growing output of yogurts and milk desserts in Russia, the above foreign companies have become the WBD Group s principal competitors in this market segment.

Values of market shares that, in the Issuer s opinion, it and its competitors have had (percentage) in the three full fiscal years preceding the date of approval of the decision to issue the bonds, or for each full fiscal year following the date of foundation provided the Issuer has been operating for less than three years:

Analysis of the Issuer s Competitive Factors:

By virtue of its primary mission control, management, and services in the interests of the WBD Group the Issuer does not have competitors. Consequently, it would be impossible to analyze the Issuer s market share and its competitiveness factors in terms of their importance and with an allowance for factor ratings.

34. Investments Declaration. Description of the Issuer s Activities.

Rendered by investment funds only.

35. Plans of the Issuer s Future Activities.

To satisfy fully the demand of legal entities and private persons in products (works, services), produced (performed, provided) in accordance with its charter activity, and to receive profits.

36. Data on the Issuer s charter capital.

Amount of the Issuer s charter capital (rub.): 880,000,000

Charter capital Breakdown by Share Category:

Common Shares:

total amount (rub.): 880,000,000

share of the charter capital: 100%

Preferred Shares:

total amount (rub.): 0

share of the charter capital: 0%

37. Data on the Participation of the State (Municipal Formation) in the Issuer s Charter Capital.

Share of the Issuer s Charter Capital belonging to the State (Municipal Formation):

none

Share of Issuer s Stock Belonging to the State (Municipal Formation):

none

Existence of the Special Right of the Russian Federation, its Subjects and Municipal Formations to Participate in the Issuer s Management (golden share):

not provided for

38. Data on the Issuer s Authorized Shares.

38.1

Category of shares: Common

Form of shares: Registered, uncertificated

Full name of category/type of authorized shares: Registered common shares, uncertificated

Par value (rub.): 20

Number: 44,000,000

Total (rub.): 880,000,000

Terms of placement: According to article 7 of the Charter, all additional common shares of the Company, if placed, grant their owners (shareholders) an amount of rights equal to the rights granted by common shares already placed by the Company at the moment the decision to place additional shares was adopted.

39. Substantial Contracts and Obligations of the Issuer.

Date of conclusion of transaction:

In the second quarter of 2003 it is supposed to place at **MICEX interest-bearing nonconvertible bearer bonds, series 01, of Wimm-Bill-Dann Foods Open Joint Stock Company, total amount 1 500 000 roubles.**

40. Issuer s Obligations for the Issue of Stocks and Securities Convertible into Stocks.

Placing complete, no obligations.

41. Data on Sanctions Against the Issuer and the Issuer s Participation in Lawsuits and Inspections.

No court proceedings in the 1th quarter of 2003

Description of the Basis for all Issuer Inspections by State Authorities and Issuer Audits on

Request of Its Participants (Shareholders), Pending or Finished in the Reporting Quarter

No issuer inspections.

42. Material Facts (Events, Activities) Having Occurred in the Reporting Quarter.

Date of occurence of the fact (event, activity): January 22, 2003

Code: 1306005A22012003

Place of preparation of the minutes: Moscow

Date of preparation of the minutes: March 11, 2003

Form of the meeting: adoption of resolutions by remote voting (by poll)

Quantitative composition of the Board of Directors of Wimm-Bill-Dann Foods Open Joint Stock Company (hereinafter <<WBD Foods OJSC>>): 11 (eleven) persons.

At the date of preparation of the minutes, 11 (eleven) members of the Board of Directors had participated in voting: Guy de Selliers, M. V. Dubinin, A.S. Orlov, S. A. Plastinin, V. A. Tutelyan, V. N. Sherbak, D. Iakobachvili, E. G. Yasin, E. Linwood Tipton, Michael O Neill and J.B. Mark Mobius. The meeting was quorate.

ISSUES PUT TO A VOTE AND RESULTS OF VOTING THEREON:

1. On the first matter on the agenda: Concerning amendments to the terms of placement of interest-bearing nonconvertible bearer bonds, series 01, of Wimm-Bill-Dann Foods Open Joint Stock Company.

Be it resolved that:

1.1. The following amendments be made to the terms of placement of interest-bearing nonconvertible bearer bonds, series 01 (Bonds), of Wimm-Bill-Dann Foods Open Joint Stock Company (WBD Foods OJSC) approved by a resolution of the Board of Directors of WBD Foods OJSC (minutes No. 11-12 of December 11, 2002):

1.1.1. Establish that the entity providing security for purposes of the bond issue is Vitafrukt Limited Liability Company. With this aim, WBD Foods OJSC and Vitafrukt Limited Liability Company will enter into an Agreement on Provision of Security to Wimm-Bill-Dann Foods Open Joint Stock Company, pursuant to which Vitafrukt Limited Liability Company agrees to be responsible to owners of the Bonds for performance by WBD Foods OJSC of its obligations to pay owners the principal debt amount represented by their Bonds, equal to the total face value of the placed Bonds.

1.1.2. Establish that the functions of payment agent will be performed by International Moscow Bank Closed Joint Stock Company.

1.1.3. Establish the following terms of early redemption of Bonds:

Grounds for early redemption of Bonds

For purposes of defining the grounds for early redemption of Bonds, the following definitions are used:

Issuer Group - all companies, including the Issuer, consolidated for purposes of the Issuer s Consolidated and Combined Financial Statements, which are prepared in accordance with United States Generally Accepted Accounting Principles (US GAAP). The companies in the Issuer Group as at the end of 2002 are listed in the Issuer s Consolidated and Combined Financial Statements for 2002.

Issuer Group Company - a company in the Issuer Group;

Issuer s Consolidated and Combined Financial Statements - the consolidated and combined financial statements of the Issuer, prepared in accordance with US GAAP.

Net Assets - Assets minus liabilities and minority interests, according to the Issuer s Consolidated and Combined Financial Statement.

EBITDA - earnings before interest, taxes, depreciation, and amortization, adjusted taking into account minority interests, according to the Issuer s Consolidated and Combined Financial Statements. If the Issuer has made investments in consolidated subsidiary companies during the period for which EBITDA is calculated, EBITDA is calculated as if the investments were made on the first day of that reporting period.

Debt - debt in the form of bank credits, loans, and commodity and commercial credits obtained by Issuer Group Companies, and/or promissory notes and/or bonds issued by Issuer Group Companies, except loans between Issuer Group Companies.

Bondowners are entitled to present Bonds for early redemption upon the occurrence of any of the following events (Grounds for Redemption):

1. Delinquency of more than 15 (fifteen) days in performance by Issuer Group Companies of their obligations with respect to payment of principal debt and/or interest on bank credits/loans received by them and/or represented by promissory notes and/or bonds issued by Issuer Group Companies, in cases when:

a) the principal debt represented by an overdue obligation (i.e., the amount of the credit/loan (not including accrued interest), the total face value of promissory notes, or the total face value of a bond issue) is greater than 10,000,000 (ten million) U.S. dollars or the equivalent thereof at the exchange rate of the Central Bank of the Russian Federation (RF Central Bank) on the due date of the respective obligation; and

b) the total amount of overdue debt of Issuer Group Companies represented by the overdue obligation specified in subsection a) above is greater than 2,500,000 (two million five hundred thousand) U.S. dollars or the equivalent thereof at the exchange rate of the RF Central Bank on the due date of the respective obligation.

2. A change, within any 12 (twelve) successive months, beginning from the placement date of the Bonds, of more than half of the personnel on the Issuer s Board of Directors relative to its composition at the start of the 12-month period.

3. A decrease in the value of the Issuer Group s Net Assets (in the ruble equivalent at the exchange rate of the RF Central Bank on the date of the respective Consolidated and Combined Financial Statements) by more than 25% (twenty-five percent) relative to the value of its Net Assets according to the Issuer s Consolidated and Combined Financial Statements for 2002.

4. As at any reporting date, according to the Issuer s Consolidated and Combined Financial Statements, an increase in the Issuer Group s Debt relative to its Debt as at the preceding reporting date, if the ratio of total debt according to the Issuer s Consolidated and Combined Financial Statements to its EBITDA for the four quarters ending on the reporting date exceeds 4:1, with the exception of:

a) additional Debt totaling no more than 100,000,000 (one hundred million) U.S. dollars;

b) short-term Debt, in the form of credits obtained for a period of no more than 5 (five) business days in each case;

c) Debt not exceeding 15,000,000 (fifteen million) U.S. dollars (or the equivalent at the exchange rate of the RF Central Bank on the reporting date), arising under derivative

financial instruments concluded for the purpose of insuring risks associated with the Issuer Group s business operations. For purposes of this subsection, derivative financial instrument means an agreement, to which an Issuer Group Company is a party, that defines the rights and obligations of the parties thereto in relation to an underlying asset defined in accordance with applicable law. Derivative financial instruments include options and forward contracts, as well as agreements that do not provide for the delivery of the underlying asset, but which define the procedure for settlements between the parties in the future in dependence on a change in some indicator of the underlying asset relative to the value of that indicator determined (or the procedure for determining which is established) by the parties at the time of entry into the transaction;

d) Debt acquired for the purpose of refinancing current Debt of the Issuer Group. For purposes of this subsection, refinancing means the acquisition of Debt by an Issuer Group Company exclusively for the purpose of repaying Debt of the Issuer Group existing on the preceding reporting date, provided that (i) the amount of Debt acquired does not exceed the amount of Debt being repaid; (ii) the term of the acquired Debt is not less than the remaining term of the existing portion of Debt being repaid and (iii) all other material conditions of the acquired Debt are not materially less favorable to the debtor than the terms of the Debt being repaid.

Procedure for disclosure by the Issuer of information concerning the occurrence of a Ground for Redemption of Bonds, and of other material information

Immediately upon becoming aware of it, Issuer is obligated to provide the Underwriter with information concerning the occurrence of any Ground for Redemption, as well as information on changes in the list of the companies forming the Issuer Group; changes in the composition of the Issuer s Board of Directors; and information on actions taken by the Issuer/an Issuer Group Company that result in the elimination of a Ground for Redemption of Bonds.

For the purpose of enabling owners of Bonds to verify the presence/absence of Grounds for Redemption of Bonds, the Underwriter will on a quarterly basis, in the manner specified below, disclose the following information, subject to its receipt from the Issuer:

1) the Issuer s Consolidated and Combined Financial Statements;

2) the composition of the Issuer Group;

3) the composition of the Issuer s Board of Directors;

All information received by the Underwriter from the Issuer of the Bonds must be published within 5 (five) business days of its receipt, by placement on the Underwriter s website (www.troika.ru). When the information concerns the occurrence of a Ground for Redemption and the start date of acceptance of early redemption applications by the Issuer, such information shall also be published in the newspaper Vedomosti.

Early redemption procedure and conditions

The Issuer will perform early bond redemption on the basis of an application from the owner of the Bonds containing a request for early redemption, or on the basis of the presentment of such a request. Therewith, owners of Bonds are entitled to present Bonds for early redemption only after the registration of the Report on Results of the Bond Issue.

If information subject to disclosure in the manner specified above contains information concerning actions taken by an Issuer Group Company that result in the elimination of a Ground for Early Redemption, an owner of Bonds is not entitled to present a demand for early redemption, provided that the owner knew or could have learned about the occurrence of the Ground for Early Redemption from such information.

During the 5 (five) business days following the later of the dates of publication by the Underwriter in the Vedomosti newspaper and on the Underwriter s site of information concerning the occurrence of any Ground for Early Redemption of Bonds and concerning the start date of acceptance of early redemption applications (Period for Presentment of Bonds for Early Redemption), owners of Bonds or nominee holders authorized to present Bond for early redemption are entitled to present Bonds for early redemption by sending a corresponding application in writing to the Underwriter.

An application for early redemption must contain the full name of the owner of the Bonds or, if the application is submitted by a nominee holder, the full name of the nominee holder, and other information prescribed in the information published by the Underwriter. Attached to the application for early redemption must be original copies of documents (extract from a depository account) issued by the Depositary and attesting that the Bonds presented for early redemption have been blocked (restriction on the withdrawal of Bonds from an owner s depository account, including an account opened by a nominee holder), as well as other documents specified in the information published by the Underwriter. If the applicant is a nominee holder, documents confirming the authority of the nominee holder to present Bonds for early redemption must be attached to the application.

An owner of Bonds is also entitled to send an early redemption application to the Underwriter if information concerning the occurrence of a Ground for Redemption has been received by the owner from third parties, provided, however, that at the time the application is presented the Underwriter has not published information concerning the Ground for Redemption specified in the application. In such case, the application must contain, in addition to the documents and information specified above, the grounds for presentment of such application and references to the source of the information. Within 5 (five) business days of receiving such an application, the Underwriter must publish information concerning the start of acceptance of early redemption applications in the manner specified above or send a reasoned refusal of early redemption to the applicant, including by reason of elimination of the Ground for Redemption.

From the time the Underwriter receives a written early redemption application from an owner or nominee holder, no operations of the owner with the Bonds contemplated by the application will be performed, except operations involved in the redemption of the Bonds and/or payment of income thereon.

No later than 5 (five) business days after the end date of the acceptance of early redemption applications, the Underwriter will provide the Issuer, the Payment Agent, and the Depositary with a list of the owners and/or nominee holders who submitted applications for early redemption of Bonds within the Period for Presentment of Bonds for Early Redemption. The list must include the following information on each person who presented Bonds for early redemption:

the full name of the owner of the Bonds or, if the application is submitted by a nominee holder and the nominee holder has been authorized to receive early redemption payments, the full name of the nominee holder;

the number of Bonds to be redeemed early;

the location and postal address of the owner of the Bonds or, if the application is submitted by a nominee holder and the nominee holder is authorized to receive early redemption payments, the location and postal address of the nominee holder;

the tax status of the person or entity authorized to receive early redemption payments: (resident; nonresident carrying out activity in the Russian Federation through a permanent representative office; nonresident receiving income unassociated with a permanent representative office; individual tax residents of the Russian Federation; individual present in the territory of the Russian Federation for at least 183 days in a calendar year; foreign national; stateless person);

identifying details of the bank account of the person or entity authorized to receive early redemption payments.

Payment of funds associated with early redemption of the Bonds will be made by the Payment Agent, acting on the Issuer s instructions, within 2 (two) business days following the date of receipt by the Payment Agent of the list of owners and/or nominee holders who sent early redemption applications, subject to the receipt of corresponding funds from the Issuer. The funds required by the Payment Agent to perform early redemption must be transferred by the Issuer to the Payment Agent s account no later than 2 (two) business days after the date of receipt by the Issuer of the list of owners and/or nominee holders who submitted early redemption applications.

Bonds presented for early redemption will be redeemed at their face value, equal to 1,000 (one thousand) rubles; at the same time, their owners will be paid coupon income on the Bonds for the coupon period during which the Bonds were presented for early redemption, calculated from the start of such period to the date of early redemption.

1.1.4. The interest rate on the first coupon will be determined according to the results of an auction held at MICEX.

The interest rate on the first coupon will be calculated as the sum of the following two components:

the level of inflation for the respective one-year period, defined as the Consumer Price Index of Russia for the calendar month ending no later than 45 days before the placement start date, as a percentage relative to the same of the preceding year, minus 100%. The CPI is calculated by the RF State Statistics Committee in accordance with a resolution of the RF State Statistics Committee dated March 25, 2002, monthly as a percentage relative to the same month of the preceding year;

an inflation premium.

The CPI will be published on the Troika Dialog Investment Company website (www.troika.ru) no later than 10 days before the placement start date.

On the day of the auction to determine the interest rate on the first coupon, members of the Stock Market Section of MICEX will submit orders for the auction using the MICEX trading system both at their own expense and at the expense and on the instructions of their clients. The time of submission of orders for the auction will be established by MICEX. Orders to buy bonds will be submitted by members of the stock market section of MICEX to the Underwriter with the following significant terms specified:

a.1) Purchase price: 100% of the face value;

a.2) Number of bonds that the potential buyer would like to acquire if the Issuer were to set an interest rate on the first coupon greater than or equal to the acceptable first-coupon interest rate specified in the order;

a.3) Acceptable interest rate on the first coupon. Acceptable interest rate on the first coupon means the interest rate at which, if such interest rate on the first coupon were announced by the Issuer, the potential investor would be prepared to buy the number of bonds specified in the order at the price of 100% of the face value. The acceptable interest rate on the first coupon shall be expressed in percent per annum to a precision of 1/100 (one-hundredth) of one percent;

Funds must be reserved in an amount sufficient to make full payment for the bonds specified in the orders, including MICEX s commission.

Orders in which one or more of the aforesaid significant terms do not conform to the requirements set forth in sections a.1 a.3 and orders not backed by funds as provided in the preceding paragraph will not be accepted for the auction to determine the interest rate on the first coupon.

Upon the end of the submission period for orders for the auction to determine the interest rate on the first coupon, MICEX will prepare a register of the orders received and deliver the register to the Issuer and the Underwriter.

On the basis of an analysis of the orders submitted for the auction, the Issuer will adopt a resolution setting the interest rate on the first coupon and deliver a written copy of the adopted resolution to the Underwriter and MICEX.

1.1.5. The rate of interest on the second, third, fourth, fifth, and sixth (C_2, C_3, C_4, C_5, and C_6) shall be calculated from the level of inflation for the corresponding one-year period (as defined below). The level of inflation shall be determined on the basis of the Consumer Price Index for Russia calculated monthly by the RF State Statistics Committee in accordance with RF State Statistics Committee Resolution No. 23 of March 25, 2002, as a percentage relative to the same month of the preceding year. The interest rate on each of the aforesaid coupons shall be calculated using the following formula:

$$C_j = (C_1 - \text{Inflation } 12M_1) + \text{Inflation } 12Mj,$$

where

C_j = the interest rate for the jth coupon in percent per annum, j = 2, 3, 4, 5, 6;

C_1 = interest rate of the first coupon, in percent per annum;

Inflation $12M_1$ = the CPI calculated by the RF State Statistics Committee for the calendar month ening no later than 45 days before the date of placement of the Bonds, as a percentage relative to the same month of the preceding year, minus 100%;

Inflation 12M$_j$ = the CPI calculated by the RF State Statistics Committee for the calendar month ending no later than 45 days before the start date of the jth coupon period, as a percentage relative to the same month of the preceding year, minus 100%;

(C$_1$ - Inflation 12M$_1$) = the inflation premium calculated after determination of the interest rate on the first coupon to a precision of 1/100 (one-hundredth) of one percent;

The CPI is provided by the RF State Statistics Committee upon request. The CPI will be published on the website of Troika Dialog Investment Company (www.troika.ru) 10 days before the start of the respective coupon period.

If a negative value for C_j is obtained from the formula specified above, C_j shall be taken as equal to zero; if the obtained value of C_j is greater than 25%, C_j shall be taken as equal to 25%.

If, during the period of circulation of the Bonds, the official procedure for calculating the CPI and the normative act establishing the procedure for calculating the CPI are altered or the CPI is replaced by an index similar in purpose to the CPI, the interest rate for a coupon will be determined using the CPI (or its similar replacement) calculated in accordance with normative acts in force at the time of its calculation.

If information on the CPI is not published by the RF State Statistics Committee and not published on the Internet website of Troika Dialog Investment Company by the date necessary to calculate the interest rate for a coupon (as set forth above), the value of Inflation 12M_j for that coupon shall be taken as equal to the value of Inflation 12M_j for the preceding coupon.

Votes: FOR - 11 (eleven) votes; AGAINST - none; ABSTAINED - none. The resolution was adopted unanimously in the stated wording

2. On the second matter on the agenda: Concerning ratification of a decision to issue securities of Wimm-Bill-Dann Foods Open Joint Stock Company, to be placed on the basis of a resolution of the Board of Directors of Wimm-Bill-Dann Foods Open Joint Stock Company to place interest-bearing nonconvertible bearer bonds, series 01, of Wimm-Bill-Dann Foods Open Joint Stock Company.

2.1. Be it resolved that, on the basis of the resolution of the Board of Directors of WBD Foods OJSC to place Bonds, the Decision to Issue Certificated Interest-Bearing Nonconvertible Bearer Bonds ,Series 01, of Wimm-Bill-Dann Foods Open Joint Stock Company, be approved.

Votes: FOR - 11 (eleven) votes; AGAINST - none; ABSTAINED - none. The resolution was adopted unanimously in the stated wording

3. On the third matter on the agenda: Concerning ratification of the prospectus for securities of Wimm-Bill-Dann Foods Open Joint Stock Company.

3.1. Be it resolved that the Prospectus for Certificated Interest-Bearing Nonconvertible Bearer Bonds, Series 01, of Wimm-Bill-Dann Foods Open Joint Stock Company be approved.

Votes: FOR - 11 (eleven) votes; AGAINST - none; ABSTAINED - none. The resolution was adopted unanimously in the stated wording

4. On the fourth matter on the agenda: Ratification of the sample certificate of interest-bearing nonconvertible bearer bonds, series 01, of Wimm-Bill-Dann Foods Open Joint Stock Company.

4.1. Be it resolved that the sample certificate of interest-bearing nonconvertible bearer bonds, series 01, of Wimm-Bill-Dann Foods Open Joint Stock Company with obligatory centralized storage, to the sum of 1,500,000,000 rubles at face value be ratified.

Votes: FOR - 11 (eleven) votes; AGAINST - none; ABSTAINED - none. The resolution was adopted unanimously in the stated wording

5. On the fifth matter on the agenda: Concerning preparation of documents for state registration of the decision to issue securities and the securities prospectus.

5.1. Be it resolved that the Chairman of the Management board of WBD Foods OJSC, S. A. Plastinin, be instructed to prepare documents for the state registration of the

Resolution to Issue Certificated Interest-Bearing Nonconvertible Bearer Bonds, Series 01 and the Prospectus for Certificated Interest-Bearing Nonconvertible Bearer Bonds, Series 01, and to take actions associated with the state registration of the issue of securities of WBD Foods OJSC.

Votes: FOR - 11 (eleven) votes; AGAINST - none; ABSTAINED - none. The resolution was adopted unanimously in the stated wording

6. On the sixth matter on the agenda: Concerning approval of transactions involving interested parties.

6.1. For the purposes of fulfilling the formal requirements of the Federal Law On Joint Stock Companies in regard to conclusion of transactions in whose completion there is a potential interest, and in view of the absence of an actual conflict of interests, be it resolved that the following transactions be approved:

1. Suretyship guarantee of WBD Foods OJSC to Westfalia Separator GmbH, Germany, on behalf of Timashevsk Dairy OJSC for performance by the latter of its monetary obligations under a contract with Westfalia Separator GmbH, Germany, to the sum of 2,949,180.00 euros (beneficiary: Timashevsk Dairy OJSC);

2. Lianozovo Dairy OJSC (Lessor) will provide to WBD Foods OJSC (Lessee) ,in exchange for rent, temporary use and possession of premises located at: Moscow, Yauzsky bulvar, d. 16/15, and ul. Solyanka, d. 13, str. 2, and Lessee will pay monthly rent in the amount of USD 600 per square meter, including VAT (20%).

Votes: FOR - 11 (eleven) votes; AGAINST - none; ABSTAINED - none. The resolution was adopted unanimously in the stated wording

Representative ***R. V. Bolotovsky***
by power of attorney dated October 1, 2002, No. 01/10

Date of occurrence of the fact (event, activity):February 03, 2003
Fact (event, activity) code: 1206005A03022003

Type of of meeting: extraordinary

Form of meeting: Remote voting

Deadline for acceptance of ballot papers (date of meeting): January 31, 2003

ISSUES PUT TO A VOTE AND RESULTS OF VOTING THEREON:

I.Be it resolved

1.1 That the charter capital of WBD Foods OJSC be increased by means of placement of additional registered common shares of WBD Foods OJSC.

1.2 That the following basic terms of the issue of additional shares be set:

1.2.1 Class and type of shares: uncertificated registered common shares (hereinafter additional shares);

1.2.2 Number of additional shares to be placed: 1,350,000 shares with a par value of 20 rubles each;

1.2.3 Method of placement: closed subscription;

1.2.4 Procedure for determining the placement price of the additional shares, including the procedure for determining the price of additional shares placed

with shareholders enjoying a preferential right to acquire them: the placement price shall be determined by the Board of Directors of WBD Foods OJSC no later than 2 weeks before the date of placement of the additional shares, on the basis of their market value.

1.2.5 Form of payment: the additional shares shall be paid for in cash;

1.2.6 Circle of persons and entities among which the additional shares are intended to be placed: the additional shares are intended to be placed with WBD ESOP, Limited and with shareholders of WBD Foods OJSC who voted against or did not participate in voting on the matter of placement of additional shares by closed subscription and have exercised their preferential right to acquire additional shares in accordance with article 40 of the Federal Law On Joint Stock Companies.

1.3. That a resolution approving a transaction for placement of 1,350,000 additional shares with WBD ESOP, Limited and payment by WBD ESOP, Limited for the additional shares of WBD Foods OJSC at the placement price.

On the first matter on the agenda 11 ballot papers were received, representing a total of 32 879 227 votes, or 74.73% of the total number of voting shares.

Voting results: FOR 31 521 429 votes; AGAINST - none; ABSTAINED - 1357798. The resolution was adopted by a majority of votes in the stated wording.

II.On the second matter on agenda be it resolved that:

For the purposes of fulfilling the formal requirements of the Federal Law On Joint Stock Companies in regard to conclusion of transactions in whose completion there is a potential interest, and in view of the absence of any actual conflict of interests, be it resolved that the following transactions in whose completion there is an interest be approved:

1. WBD FOODS OJSC shall grant to debtor (Rubtsov Dairy CJSC) for up to 3 (three) years the returnable (revolving) loan in rubles equivalent to US dollars under the following terms and conditions: the maximum amount of the current liability to WBD FOODS OJSC at any date shall not exceed the US dollar equivalent of 10,200,000 (ten million two hundred thousand) (beneficiary Rubtsov Dairy CJSC);

2. WBD FOODS OJSC shall grant to debtor (Vladivostok Dairy OJSC) for up to 3 (three) years the returnable (revolving) loan in rubles equivalent to US dollars under the following terms and conditions: the maximum amount of the current liability to WBD FOODS OJSC at any date shall not exceed the US dollar equivalent of 2,500,000 (two million five hundred thousand) (beneficiary - Vladivostok Dairy OJSC);

3. WBD FOODS OJSC shall grant to debtor (Children s Dairy Products Factory OJSC) for up to 3 (three) years the returnable (revolving) loan in rubles equivalent to US dollars under the following terms and conditions: the maximum amount of the current liability to WBD FOODS OJSC at any date shall not exceed the US dollar equivalent of 12,400,000 (twelve million four hundred thousand) (beneficiary - Children s Dairy Products Factory OJSC);

4. JSC WBD FOODS OJSC shall grant to debtor (Lianozovo Dairy OJSC) for up to 3 (three) years the returnable (revolving) loan in rubles equivalent to US dollars under the following terms and conditions: the maximum amount of the current liability to WBD FOODS OJSC at any date shall not exceed the US dollar equivalent of 75,500,000 (seventy-five million five hundred thousand) (beneficiary - Lianozovo Dairy OJSC);

5. JSC WBD FOODS OJSC shall grant to debtor (Nizhniy Novgorod Dairy OJSC) for up to 3 (three) years the returnable (revolving) loan in rubles equivalent to US dollars under the following terms and conditions: the maximum amount of the current liability to WBD

FOODS OJSC at any date shall not exceed the US dollar equivalent of 8,700,000 (eight million seven hundred thousand) (beneficiary - Nizhniy Novgorod Dairy OJSC);

6. ***JSC WBD FOODS OJSC shall grant to debtor (Novokuibyshevskmoloko Dairy OJSC) for up to 3 (three) years the returnable (revolving) loan in rubles equivalent to US dollars under the following terms and conditions: the maximum amount of the current liability to WBD FOODS OJSC at any date shall not exceed the US dollar equivalent of 4,300,000 (four million three hundred thousand) (beneficiary - Novokuibyshevskmoloko Dairy OJSC);***

7. ***JSC WBD FOODS OJSC shall grant to debtor (Roska OJSC) for up to 3 (three) years the returnable (revolving) loan in rubles equivalent to US dollars under the following terms and conditions: the maximum amount of the current liability to WBD FOODS OJSC at any date shall not exceed the US dollar equivalent of 14,200,000 (fourteen million two hundred fifty thousand) (beneficiary - Roska OJSC);***

8. ***JSC WBD FOODS OJSC shall grant to debtor (Siberian Milk CJSC) for up to 3 (three) years the returnable (revolving) loan in rubles equivalent to US dollars under the following terms and conditions: the maximum amount of the current liability to WBD FOODS OJSC at any date shall not exceed the US dollar equivalent of 24,000,000 (twenty-four million) (beneficiary - Siberian Milk CJSC);***

9. ***JSC WBD FOODS OJSC shall grant to debtor (Timashevsk Dairy OJSC) for up to 3 (three) years the returnable (revolving) loan in rubles equivalent to US dollars under the following terms and conditions: the maximum amount of the current liability to WBD FOODS OJSC at any date shall not exceed the US dollar equivalent of 47,200,000 (fourty-thousand million two hundred thousand) (beneficiary - Timashevsk Dairy OJSC);***

10. ***JSC WBD FOODS OJSC shall grant to debtor (Ufamolagroprom Dairy OJSC) for up to 3 (three) years the returnable (revolving) loan in rubles equivalent to US dollars under the following terms and conditions: the maximum amount of the current liability to WBD FOODS OJSC at any date shall not exceed the US dollar equivalent of 1,200,000 (one million two hundred thousand) (beneficiary - Ufamolagroprom Dairy OJSC);***

11. ***JSC WBD FOODS OJSC shall grant to debtor (Rodniki Valdaya LLC) for up to 3 (three) years the returnable (revolving) loan in rubles equivalent to US dollars under the following terms and conditions: the maximum amount of the current liability to WBD FOODS OJSC at any date shall not exceed the US dollar equivalent of 15,000,000 (fifteen million) (beneficiary - Rodniki Valdaya LLC);***

12. ***JSC WBD FOODS OJSC shall grant to debtor (Tsaritsyno Dairy OJSC) for up to 3 (three) years the returnable (revolving) loan in rubles equivalent to US dollars under the following terms and conditions: the maximum amount of the current liability to WBD FOODS OJSC at any date shall not exceed the US dollar equivalent of 41,500,000 (fourty-one million five hundred thousand) (beneficiary - Tsaritsyno Dairy JSC);***

13. ***The executor (WBD FOODS OJSC) shall render to the Customer (Lianozovo Dairy OJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Lianozovo Dairy OJSC>>);***

14. ***The executor (WBD FOODS OJSC) shall render to the Customer (Tsaritsyno Dairy OJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Tsaritsyno Dairy OJSC>>);***

15. The executor (WBD FOODS OJSC) shall render to the Customer (Baby Dairy Food Factory OJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Baby Dairy Food Factory OJSC>>);

16. The executor (WBD FOODS OJSC) shall render to the Customer (Nizhniy Novgorod Dairy OJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Nizhniy Novgorod Dairy OJSC>>);

17. The executor (WBD FOODS OJSC) shall render to the Customer (Timashevsk Dairy OJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Timashevsk Dairy OJSC>>);

18. The executor (WBD FOODS OJSC) shall render to the Customer (Siberian Milk Dairy OJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Siberian Milk Dairy OJSC>>);

19. The executor (WBD FOODS OJSC) shall render to the Customer (Vladivostok Dairy OJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Vladivostok Dairy OJSC>>);

20. The executor (WBD FOODS OJSC) shall render to the Customer (Karasuksky Milk DCJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Karasuksky Milk DCJSC);

21. The executor (WBD FOODS OJSC) shall render to the Customer (Ufamolagroprom OJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Ufamolagroprom OJSC>>);

22. The executor (WBD FOODS OJSC) shall render to the Customer (Kiev City Dairy #3 OJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Kiev City Dairy #3 OJSC>>);

23. The executor (WBD FOODS OJSC) shall render to the Customer (Bishketsut OJSC) complex management consulting services, and the Customer shall pay

for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Bishketsut OJSC>>);

24. The executor (WBD FOODS OJSC) shall render to the Customer (Anninskoye Milk OJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Anninskoye Milk OJSC>>);

25. The executor (WBD FOODS OJSC) shall render to the Customer (Rubtsov Dairy CJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Rubtsov Dairy CJSC>>);

26. The executor (WBD FOODS OJSC) shall render to the Customer (Veidelevka Milk OJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Veidelevka Milk OJSC>>);

27. The executor (WBD FOODS OJSC) shall render to the Customer (Novokuibyshevskmoloko OJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Novokuibyshevskmoloko OJSC>>);

28. The executor (WBD FOODS OJSC) shall render to the Customer (Roska OJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Roska OJSC>>);

29. The executor (WBD FOODS OJSC) shall render to the Customer (Gulkevichsky Butter Factory OJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Gulkevichsky Butter Factory OJSC>>);

30. The executor (WBD FOODS OJSC) shall render to the Customer (WIMM-BILL-DANN Trading Company CJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, WIMM-BILL-DANN Trading Company CJSC>>);

31. The executor (WBD FOODS OJSC) shall render to the Customer (Kharkov Dairy OJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal

activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Kharkov Dairy OJSC>>);

32. The executor (WBD FOODS OJSC) shall render to the Customer (Valdai Springs OJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Valdai Springs OJSC>>);

33. The executor (WBD FOODS OJSC) shall render to the Customer (Tuimazynsk Dairy OJSC) complex management consulting services, and the Customer shall pay for these services on the basis of the following procedure for determining the cost of such services: from 2 to 10% from the Customer s profit obtained from its principal activities prior to taxation, but at least 30,000 rubles a month (beneficiary WBD FOODS OJSC, Tuimazynsk Dairy OJSC>>);

34. WBD Foods OJSC will provide surety to Kommerzbank ZAO on behalf of Tsaritsyno Dairy OJSC performance by latter of its liabilities under a credit agreement with Kommerzbank ZAO to the sum of the credit (10,000,000 USD) and interest thereon (beneficiary: Tsaritsyno Dairy OJSC);

35. WBD FOODS OJSC shall provide surety to CJSC KB Citibank on behalf of OJSC ZDMP for the performance by the latter of its liabilities under a loan agreement with CJSC ING Bank to the sum of the loan of 4,143,227 EUROS and the interest thereon (beneficiary ZDMP OJSC);

36. WBD Foods OJSC will provide surety to CB Citibank ZAO on behalf of Lianozovo Dairy OJSC performance by the latter of its liabilities under a credit agreement with CB Citibank ZAO to the sum of the credit, 4,137,147 Euros (beneficiary: Lianozovo Dairy OJSC);

37. WBD Foods OJSC will provide surety to CB Citibank ZAO on behalf of Lianozovo Dairy OJSC performance by the latter of its liabilities under a credit agreement with CB Citibank ZAOto the sum of the credit, 3,844,395 Euros (beneficiary: Lianozovo Dairy OJSC);

38. WBD Foods OJSC will provide surety to CB Citibank ZAO on behalf of Timashevsk Dairy OJSC performance by the latter of its liabilities under a credit agreement with CB Citibank ZAO to the sum of the credit, 3,920,957 Euros (beneficiary: Timashevsk Dairy OJSC);

39. WIMM-BILL-DANN Trading Company CJSC shall guarantee the performance by WBD FOODS OJSC (Issuer) of its obligations to pay up the nominal value of Bonds to the holders of documentary interest-bearing bonds with a total nominal value of 1,500,000,000 (One and a half billion) payable to bearer, issued by WBD FOODS OJSC rubles, series 01, and with obligatory centralized registration.

40. WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Anninskoye Milk LLC (Licensee) a non-exclusive license effective in the Russian Federation to use the following trademarks in relation to the goods and services specified in the agreement for the duration of the agreement:

117667 Wimm-Bill-Dann

117698 - Wimm-Bill-Dann and an image of the outline of the small animal with a fluffy tail

125261 WIMM-BILL-DANN, is what you want

188686 WIMM-BILL-DANN is what you want

193409 - Wimm-Bill-Dann

203362 VESELYI MOLOCHNIK

221482 MOLOKO S BOLOSHOI BUKVY

The compensation shall be repaid every month, and is to be determined as follows:

from (0.01% to 10 %) plus VAT of the income obtained by selling the Licensee s products, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

41. WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Bishketsut JSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in Kirgizia in relation to the following goods and services specified in the agreement:

701920 - Wimm-Bill-Dann

768825 Ryzhii Ap (an image) a bear cub, with the right hand facing sideways, the left hand pointing, and the right eye squinting

770680 Ryzhii Ap! (with an orange spiral)

771884 MAZHITEL

774067 Frugurt

774817 Doctor Bifi + an oval with an image of the spectacled doctor

782583 DESERTINO

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

42. WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Veidelevky Milk LLC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement:

117667 Wimm-Bill-Dann

117698 - Wimm-Bill-Dann and an image of the outline of the small animal with a fluffy tail

125261 WIMM-BILL-DANN, is what you want

188686 WIMM-BILL-DANN is what you want

193409 - Wimm-Bill-Dann

203362 VESELYI MOLOCHNIK

221482 MOLOKO S BOLOSHOI BUKVY

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

43. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Vitafruct LLC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement:

117667 Wimm-Bill-Dann

125261 WIMM-BILL-DANN, is what you want

125306 J-7

125307 J-7, WIMM-BILL-DANN and is what you want with an image of a small animal and oranges

125308 Dzhei seven

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

44. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Vladivostok Dairy OJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement:

117667 Wimm-Bill-Dann

117698 - Wimm-Bill-Dann and an image of the outline of the small animal with a fluffy tail

125261 WIMM-BILL-DANN, is what you want

181323 Chudo-iogurt

187863 Bio-Max

188686 WIMM-BILL-DANN is what you want

193409 - Wimm-Bill-Dann

193717 shake

195913 frugurt

198331 DESERTINO

199639 AGUSHA

203362 VESELYI MOLOCHNIK

204651 Ryzhii Ap image holding a glass of milk in the right hand

204652 Ryzhii Ap image on the rollers

204653 Ryzhii Ap! (with an orange spiral)

204654 Ryzhii Ap image with a right hand facing sideways, a left hand pointing, and the right eye squinting

205535 MAGITEL

206874 Doctor Bifi + an oval with an image of a spectacled doctor

212104 Chudo-iogurt milk (cherry and bilberry)

219224 Chudo-iogurt cream (apricot and cherry)

220660 Chudo-iogurt cream (bilberry and multifruit)

220661 Chudo-iogurt milk (apricot and apple)

220663 Chudo-iogurt milk (strawberry and apricot)

220664 Chudo-iogurt cream (strawberry and apricot)

220764 AGUSHA, light letters inside an oval against black rectangular background

220836 RYZHII AP

221482 MOLOKO S BOLSHOI BUKVY

221754 Chudo-tvorozhok (cherry)

221755 Chudo-tvorozhok (strawberry)

221756 Chudo-tvorozhok (bilberry)

221771 Frugurt (pineapple and musk melon)

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

45. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Grande-V CJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement:

117667 Wimm-Bill-Dann

125261 WIMM-BILL-DANN, is what you want

125306 J-7

125307 J-7, WIMM-BILL-DANN is what you want with an image of a small animal and oranges

125308 Dzhei seven

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

46. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Gulkevichsky Butter Factory CJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement

117667 Wimm-Bill-Dann

117698 - Wimm-Bill-Dann and an image of the outline of the small animal with a fluffy tail

125261 WIMM-BILL-DANN, is what you want

188686 WIMM-BILL-DANN is what you want

193409 - Wimm-Bill-Dann

203362 VESELYI MOLOCHNIK

204651 Ryzhii Ap image with the right hand holding a glass of milk

204652 Ryzhii Ap image on the rollers

204653 Ryzhii Ap! (with an orange spiral)

204654 Ryzhii Ap image with the right hand facing sideways, the left hand pointing, and the right eye squinting

220836 RYZHII AP

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

47. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Depsona CJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement:

117667 Wimm-Bill-Dann

117698 - Wimm-Bill-Dann and an image of the outline of the small animal with a fluffy tail

125261 WIMM-BILL-DANN, is what you want

125306 J-7

125308 Dzhei seven

175317 Chudo-yagoda

188686 WIMM-BILL-DANN is what you want

193409 - Wimm-Bill-Dann

204570 LYUBIMYI SAD

205751 Wonder-Berry

212353 J-7

220804 Fruit drink with mixture of berries on the figure (collection of berries)

220805 Fruit drink with cherry on the figure

220806 Fruit drink with cranberry on the figure

220807 Fruit drink with cranberry + strawberry on the figure

220808 Fruit drink with raspberry on the figure

221699 BERENIKA

221700 BERENIKA

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

48. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to DP Wimm-Bill-Dann Ukraine (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in Ukraine in relation to the following goods and services specified in the agreement:

695113 - J-7, WIMM-BILL-DANN and is what you want with an image of the small animal and oranges

695171 J-7

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

49 JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Baby Dairy Food Factory CJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement:

117667 Wimm-Bill-Dann

117698 - Wimm-Bill-Dann and an image of the outline of the small animal with a fluffy tail

125261 WIMM-BILL-DANN, is what you want

181323 Chudo-iogurt

187863 Bio-Max

188686 WIMM-BILL-DANN is what you want

193409 - Wimm-Bill-Dann

199639 AGUSHA

203362 VESELYI MOLOCHNIK

204651 Ryzhii Ap image with the right hand holding a glass of milk

204652 Ryzhii Ap image on the rollers

204653 Ryzhii Ap! (with an orange spiral)

204654 Ryzhii Ap image with the right hand facing sideways, the left hand pointing, and the right eye squinting

220764 AGUSHA, light letters inside an oval against a black rectangular background

220836 RYZHII AP

221754 Chudo-tvorozhok (cherry)

221755 Chudo-tvorozhok (strawberry)

221756 Chudo-tvorozhok (bilberry)

221771 Frugurt (pineapple and musk melon)

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

50. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Kiev City Dairy #3 CJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in Ukraine in relation to the following goods and services specified in the agreement:

701920 - Wimm-Bill-Dann

768825 Ryzhii Ap image with the right hand facing sideways, the left hand pointing, and the right eye squinting

770680 Ryzhii Ap! (with an orange spiral)

771884 MAZHITEL

774067 frugurt

774817 Doctor Bifi + an oval with an image of a spectacled doctor

782583 DESERTINO

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

51 JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Lianozovo CJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement: 117667 Wimm-Bill-Dann

125261 WIMM-BILL-DANN, is what you want

125306 J-7

125307 J-7, WIMM-BILL-DANN and is what you want with an image of the small animal and oranges

125308 Dzhei seven

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

52. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Lianozovo Dairy CJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement with a right to sublicense thereof:

117667 Wimm-Bill-Dann

117698 - Wimm-Bill-Dann and an image of the outline of the small animal with a fluffy tail

125261 WIMM-BILL-DANN, is what you want

181323 Chudo-iogurt

187863 Bio-Max

188686 WIMM-BILL-DANN is what you want

193409 - Wimm-Bill-Dann

193717 shake

195913 frugurt

198331 DESERTINO

199639 AGUSHA

203362 VESELYI MOLOCHNIK

204651 Bear cub Ryzhii Ap image with its right hand holding a glass of milk

204652 Bear cub Ryzhii Ap image on the rollers

204653 Ryzhii Ap! (with an orange spiral)

204654 Ryzhii Ap bear cub, black and white image with the right hand facing sideways, the left hand pointing, and the right eye squinting

205535 MAZHITEL

206874 Doctor Bifi + oval with an image of the spectacled doctor

212104 Chudo-iogurt milk (cherry u bilberry)

219224 Chudo-iogurt cream (apricot u cherry)

220660 Chudo-iogurt cream (bilberry and multifruit)

220661 Chudo-iogurt milk (apricot and apple)

220663 Chudo-iogurt milk (strawberry and apricot)

220664 Chudo-iogurt cream (strawberry and apricot)

220764 AGUSHA, light letters inside an oval against a black rectangular background

220836 RYZHII AP

221482 MOLOKO S BOLSHOI BUKVY

221754 Chudo-tvorozhok (cherry)

221755 Chudo-tvorozhok (strawberry)

221756 Chudo-tvorozhok (bilberry)

221771 Frugurt (pineapple and musk melon)

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

53 JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Lianozovo Dairy CJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the states specified in the below certificates of international registration in relation to the following goods and services specified in the agreement with a right to sublicense thereof:

695171 J-7

696609 - Wimm-Bill-Dann is what you want

701920 - Wimm-Bill-Dann

763867 - Wimm-Bill-Dann is what you want

768825 Ryzhii Ap bear cub, black and white image with the right hand facing sideways, the left hand pointing, and the right eye squinting

770680 Ryzhii Ap! (with an orange spiral)

771884 MAZHITEL

774067 frugurt

774817 Doctor Bifi + oval with an image of the spectacled doctor

782583 DESERTINO

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

54. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Nizhniy Novgorod Dairy OJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement:

117667 Wimm-Bill-Dann

117698 - Wimm-Bill-Dann and an image of the outline of the small animal with a fluffy tail

125261 WIMM-BILL-DANN, is what you want

181323 Chudo-iogurt

187863 Bio-Max

188686 WIMM-BILL-DANN is what you want

193409 - Wimm-Bill-Dann

193717 shake

195913 frugurt

198331 DESERTINO

199639 AGUSHA

203362 VESELYI MOLOCHNIK

204651 Ryzhii Ap image with the right hand holding a glass of milk

204652 Ryzhii Ap image on the rollers

204653 Ryzhii Ap! (with an orange spiral)

204654 Ryzhii Ap image with the right hand facing sideways, the left hand pointing, and the right eye squinting

205535 MAZHITEL

206874 Doctor Bifi + oval with an image of the spectacled doctor

212104 Chudo-iogurt milk (cherry and bilberry)

219224 Chudo-iogurt cream (apricot and cherry)

220660 Chudo-iogurt cream (bilberry and multifruit)

220661 Chudo-iogurt milk (apricot and apple)

220663 Chudo-iogurt milk (strawberry and apricot)

220664 Chudo-iogurt cream (strawberry and apricot)

220764 AGUSHA, light letters inside an oval against a black rectangular background

220836 RYZHII AP

221482 MOLOKO S BOLSHOI BUKVY

221754 Chudo-tvorozhok (cherry)

221755 Chudo-tvorozhok (strawberry)

221756 Chudo-tvorozhok (bilberry)

221771 Frugurt (pineapple and musk melon)

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

55 JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Nectarine LLC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the

following goods and services specified in the agreement:

117667 Wimm-Bill-Dann

125261 WIMM-BILL-DANN, is what you want

125306 J-7

125307 J-7, WIMM-BILL-DANN and is what you want and an image of the small animal and cut oranges

125308 Dzhei seven

204570 LYUBIMYI SAD

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

56. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Novokuibyshevskmoloko OJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement:

117667 Wimm-Bill-Dann

117698 - Wimm-Bill-Dann and an image of the outline of the small animal with a fluffy tail

125261 WIMM-BILL-DANN is what you want

181323 Chudo-iogurt

187863 Bio-Max

188686 WIMM-BILL-DANN is what you want

193409 - Wimm-Bill-Dann

193717 shake

195913 frugurt

198331 DESERTINO

199639 AGUSHA

203362 VESELYI MOLOCHNIK

204651 Ryzhii Ap image with the right hand holding a glass of milk

204652 Ryzhii Ap image on the rollers

204653 Ryzhii Ap! (with an orange spiral)

204654 Ryzhii Ap image with the right hand facing sideways, the left hand pointing, and the right eye squinting

205535 MAZHITEL

206874 Doctor Bifi + an oval with an image of the spectacled doctor

212104 Chudo-iogurt milk (cherry and bilberry)

219224 Chudo-iogurt cream (apricot and cherry)

220660 Chudo-iogurt cream (bilberry and multifruit)

220661 Chudo-iogurt milk (apricot and apple)

220663 Chudo-iogurt milk (strawberry and apricot)

220664 Chudo-iogurt cream (strawberry and apricot)

220764 AGUSHA, light letters inside an oval against a black rectangular background

220836 RYZHII AP

221482 MOLOKO S BOLSHOI BUKVY

221754 Chudo-tvorozhok (cherry)

221755 Chudo-tvorozhok (strawberry)

221756 Chudo-tvorozhok (bilberry)

221771 Frugurt (pineapple and musk melon)

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

57. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to FOODS PRODUCTION CJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement:

117667 Wimm-Bill-Dann

125261 WIMM-BILL-DANN, is what you want

125306 J-7

125307 J-7, WIMM-BILL-DANN and is what you want with an image of the small animal and oranges

125308 Dzhei seven

125309 J-7

134062 Dr. Fresh

134063 Dr. Fresh

204570 LYUBIMYI SAD

204652 Ryzhii Ap image on the rollers

204653 Ryzhii Ap! (with an orange spiral)

204654 Ryzhii Ap image with the right hand facing sideways, the left hand pointing, and the right eye squinting

220836 RYZHII AP

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

58. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Ramensky Milk CJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement: 117667 Wimm-Bill-Dann

125261 WIMM-BILL-DANN, is what you want

204570 LYUBIMYI SAD

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

58. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Ramensky Juices LLC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement:

117667 Wimm-Bill-Dann

125261 WIMM-BILL-DANN, is what you want

204570 LYUBIMYI SAD

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

59. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Roska CJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement:

117667 Wimm-Bill-Dann

117698 - Wimm-Bill-Dann and an image of the outline of the small animal with a fluffy tail

125261 WIMM-BILL-DANN, is what you want

181323 Chudo-iogurt

187863 Bio-Max

188686 WIMM-BILL-DANN is what you want

193409 - Wimm-Bill-Dann

193717 shake

195913 frugurt

198331 DESERTINO

199639 AGUSHA

203362 VESELYI MOLOCHNIK

204651 Bear cub Ryzhii Ap image with the right hand holding a glass of milk

204652 Ryzhii Ap image on the rollers

204653 Ryzhii Ap! (with an orange spiral)

204654 Ryzhii Ap image with the right hand facing sideways, the left hand pointing, and the right eye squinting

205535 MAZHITEL

206874 Doctor Bifi + an oval with an image of the spectacled doctor

212104 Chudo-iogurt milk (cherry and bilberry)

219224 Chudo-iogurt cream (apricot and cherry)

220660 Chudo-iogurt cream (bilberry and multifruit)

220661 Chudo-iogurt milk (apricot and apple)

220663 Chudo-iogurt milk (strawberry and apricot)

220664 Chudo-iogurt cream (strawberry and apricot)

220764 AGUSHA, light letters inside an oval against a black rectangular background

220836 RYZHII AP

221482 MOLOKO S BOLSHOI BUKVY

221754 Chudo-tvorozhok (cherry)

221755 Chudo-tvorozhok (strawberry)

221756 Chudo-tvorozhok (bilberry)

221771 Frugurt (pineapple and musk melon)

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

60. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Siberian Milk CJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement with the right to sublicense thereof:

117667 Wimm-Bill-Dann

117698 - Wimm-Bill-Dann and an image of the outline of the small animal with a fluffy tail

125261 WIMM-BILL-DANN, is what you want

181323 Chudo-iogurt

187863 Bio-Max

188686 WIMM-BILL-DANN is what you want

193409 - Wimm-Bill-Dann

193717 shake

195913 frugurt

198331 DESERTINO

199639 AGUSHA

203362 VESELYI MOLOCHNIK

204651 Ryzhii Ap image with the right hand holding a glass of milk

204652 Ryzhii Ap image on the rollers

204653 Ryzhii Ap! (with an orange spiral)

204654 Ryzhii Ap image with the right hand facing sideways, the left hand pointing, and the right eye squinting

205535 MAZHITEL

206874 Doctor Bifi + an oval with an image of the spectacled doctor

212104 Chudo-iogurt milk (cherry and bilberry)

219224 Chudo-iogurt cream (apricot and cherry)

220660 Chudo-iogurt cream (bilberry and multifruit)

220661 Chudo-iogurt milk (apricot and apple)

220663 Chudo-iogurt milk (strawberry and apricot)

220664 Chudo-iogurt cream (strawberry and apricot)

220764 AGUSHA, light letters inside an oval against a black rectangular background

220836 RYZHII AP

221482 MOLOKO S BOLSHOI BUKVY

221754 Chudo-tvorozhok (cherry)

221755 Chudo-tvorozhok (strawberry)

221756 Chudo-tvorozhok (bilberry)

221771 Frugurt (pineapple and musk melon)

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

61. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Siberian Milk OJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the states specified in the below certificates of international registration in relation to the following goods and services specified in the agreement with a right to sublicense thereof:

701920 - Wimm-Bill-Dann

768825 Ryzhii Ap image with the right hand facing sideways, the left hand pointing, and the right eye squinting

770680 Ryzhii Ap! (with an orange spiral)

771884 MAZHITEL

774067 frugurt

774817 Doctor Bifi + an oval with an image of a spectacled doctor

782583 DESERTINO

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

62 JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Siberian Juices LLC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement:

117667 Wimm-Bill-Dann

125261 WIMM-BILL-DANN, is what you want

125306 J-7

125307 J-7, WIMM-BILL-DANN u is what you want with an image of the small animal and oranges

125308 Dzhei seven

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

63. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Timashevsk Dairy OJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement with the right to sublicense thereof:

117667 Wimm-Bill-Dann

117698 - Wimm-Bill-Dann and an image of the outline of the small animal with a fluffy tail

125261 WIMM-BILL-DANN, is what you want

181323 Chudo-iogurt

187863 Bio-Max

188686 WIMM-BILL-DANN is what you want

193409 - Wimm-Bill-Dann

193717 shake

195913 frugurt

198331 DESERTINO

199639 AGUSHA

203362 VESELYI MOLOCHNIK

204651 Ryzhii Ap image with the right hand holding a glass of milk

204652 Ryzhii Ap image on the rollers

204653 Ryzhii Ap! (with an orange spiral)

204654 Ryzhii Ap image with the right hand facing sideways, the left hand pointing, and the right eye squinting

205535 MAZHITEL

206874 Doctor Bifi + an oval with an image of a spectacled doctor

212104 Chudo-iogurt milk (cherry and bilberry)

219224 Chudo-iogurt cream (apricot and cherry)

220660 Chudo-iogurt cream (bilberry and multifruit)

220661 Chudo-iogurt milk (apricot and apple)

220663 Chudo-iogurt milk (strawberry and apricot)

220664 Chudo-iogurt cream (strawberry and apricot)

220764 AGUSHA, light letters inside an oval against a black rectangular background

220836 RYZHII AP

221482 MOLOKO S BOLSHOI BUKVY

221754 Chudo-tvorozhok (cherry)

221755 Chudo-tvorozhok (strawberry)

221756 Chudo-tvorozhok (bilberry)

221771 Frugurt (pineapple and musk melon)

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

64 JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Timashevsk Dairy OJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the states specified in the below certificates of international registration in relation to the following goods and services specified in the agreement with a right to sublicense thereof:

695171 J-7

696609 - Wimm-Bill-Dann is what you want

701920 - Wimm-Bill-Dann

763867 - Wimm-Bill-Dann is what you want

768825 Ryzhii Ap image with the right hand facing sideways, the left hand pointing, and the right eye squinting

770680 Ryzhii Ap! (with an orange spiral)

771884 MAZHITEL

774067 frugurt

774817 Doctor Bifi + an oval with an image of a spectacled doctor

782583 DESERTINO

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

65. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Ufamolagroprom OJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement:

117667 Wimm-Bill-Dann

117698 - Wimm-Bill-Dann and an image of the outline of the small animal with a fluffy tail

125261 WIMM-BILL-DANN, is what you want

181323 Chudo-iogurt

187863 Bio-Max

188686 WIMM-BILL-DANN is what you want

193409 - Wimm-Bill-Dann

193717 shake

195913 frugurt

198331 DESERTINO

199639 AGUSHA

203362 VESELYI MOLOCHNIK

204651 Ryzhii Ap image with the right hand holding a glass of milk

204652 Ryzhii Ap image on the rollers

204653 Ryzhii Ap! (with an orange spiral)

204654 Ryzhii Ap image with the right hand facing sideways, the left hand pointing, and the right eye squinting

205535 MAZHITEL

206874 Doctor Bifi + an oval with an image of a spectacled doctor

212104 Chudo-iogurt milk (cherry and bilberry)

219224 Chudo-iogurt cream (apricot and cherry)

220660 Chudo-iogurt cream (bilberry and multifruit)

220661 Chudo-iogurt milk (apricot and apple)

220663 Chudo-iogurt milk (strawberry and apricot)

220664 Chudo-iogurt cream (strawberry and apricot)

220764 AGUSHA, light letters inside an oval against a black rectangular background

220836 RYZHII AP

221482 MOLOKO S BOLSHOI BUKVY

221754 Chudo-tvorozhok (cherry)

221755 Chudo-tvorozhok (strawberry)

221756 Chudo-tvorozhok (bilberry)

221771 Frugurt (pineapple and musk melon)

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

66. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Fructola LLC (Licensee) for the duration of the agreement a non-

exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement:

117667 Wimm-Bill-Dann

125261 WIMM-BILL-DANN, is what you want

125306 J-7

125307 J-7, WIMM-BILL-DANN and is what you want with an image of the small animal and oranges

125308 Dzhei seven

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

67. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Fruit Rivers LLC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement:

117667 Wimm-Bill-Dann

125261 WIMM-BILL-DANN, is what you want

125306 J-7

125307 J-7, WIMM-BILL-DANN and is what you want with an image of the small animal and oranges

125308 Dzhei seven

134062 Dr. Fresh

134063 Dr. Fresh

175317 Chudo-yagoda

204570 LYUBIMYI SAD

204652 Ryzhii Ap image on the rollers

204653 Ryzhii Ap! (with an orange spiral)

204654 Ryzhii Ap image with the right hand facing sideways, the left hand pointing, and the right eye squinting

205751 Wonder-Berry

212353 J-7

220804 Fruit drink with a mixture of berries on the figure (collection of berries)

220805 Fruit drink with cherry on the figure

220806 Fruit drink with cranberry on the figure

220807 Fruit drink with cranberry + strawberry on the figure

220808 Fruit drink with raspberry on the figure

220836 RYZHII AP

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

68. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Kharkov Dairy OJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in Ukraine in relation to the following goods and services specified in the agreement:

701920 - Wimm-Bill-Dann

768825 Ryzhii Ap image with the right hand facing sideways, the left hand pointing, and the right eye squinting

770680 Ryzhii Ap! (with an orange spiral)

771884 MAZHITEL

774067 frugurt

774817 Doctor Bifi + an oval with an image of the spectacled doctor

782583 DESERTINO

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

69. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Tsaritsyno Dairy (TSNK) OJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the Russian Federation in relation to the following goods and services specified in the agreement with the right to sublicense thereof:

117667 Wimm-Bill-Dann

117698 - Wimm-Bill-Dann and an image of the outline of the small animal with a fluffy tail

125261 WIMM-BILL-DANN, is what you want

181323 Chudo-iogurt

187863 Bio-Max

188686 WIMM-BILL-DANN is what you want

193409 - Wimm-Bill-Dann

193717 shake

195913 frugurt

198331 DESERTINO

199639 AGUSHA

203362 VESELYI MOLOCHNIK

204651 Ryzhii Ap image with the right hand holding a glass of milk

204652 Ryzhii Ap image on the rollers

204653 Ryzhii Ap! (with an orange spiral)

204654 Ryzhii Ap image with the right hand facing sideways, the left hand pointing, and the right eye squinting

205535 MAZHITEL

206874 Doctor Bifi + an oval with an image of the spectacled doctor

212104 Chudo-iogurt milk (cherry and bilberry)

219224 Chudo-iogurt cream (apricot and cherry)

220660 Chudo-iogurt cream (bilberry and multifruit)

220661 Chudo-iogurt milk (apricot and apple)

220663 Chudo-iogurt milk (strawberry and apricot)

220664 Chudo-iogurt cream (strawberry and apricot)

220764 AGUSHA, light letters inside an oval against a black rectangular background

220836 RYZHII AP

221482 MOLOKO S BOLSHOI BUKVY

221754 Chudo-tvorozhok (cherry)

221755 Chudo-tvorozhok (strawberry)

221756 Chudo-tvorozhok (bilberry)

221771 Frugurt (pineapple and musk melon)

The compensation shall be paid every month, and is to be determined as follows:

from (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

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70. JSC WBD FOODS OJSC (Licensor) shall, for the compensation paid by the Licensee to the Licensor, grant to Tsarisyno Dairy (TSMK) OJSC (Licensee) for the duration of the agreement a non-exclusive license to use the following trademarks in the states specified in the below certificates of international registration in relation to the following goods and services specified in the agreement with a right to sublicense thereof:

695171 J-7

696609 - Wimm-Bill-Dann is what you want

701920 - Wimm-Bill-Dann

763867 - Wimm-Bill-Dann is what you want

768825 Ryzhii Ap image with the right hand facing sideways, the left hand pointing, and the right eye squinting

770680 Ryzhii Ap! (with an orange spiral)

771884 MAZHITEL

774067 frugurt

774817 Doctor Bifi + an oval with an image of the spectacled doctor

782583 DESERTINO

The compensation shall be paid every month, and is to be determined as follows:

From (0.01% to 10 %) and VAT of the Licensee products realization income, but at least 120 rubles, including VAT (20%).

Sales figures shall be determined exclusive of VAT.

On the second matter on the agenda 2 ballot papers were received, representing a total of votes, or 100% of the total number of voting shares.

Voting results: FOR 1910178 votes; AGAINST - none; ABSTAINED - none. The resolution was adopted unanimously in the stated wording.

III.

Be it resolved that the new version of the bylaw On the Board of Directors of WBD Foods OJSC of WBD Foods OJSC be ratified.

On the third matter on the agenda 11 ballot papers were received, representing a total of 32 879 227 votes, or 74.73% of the total number of voting shares.

Voting results: FOR 31 521 429 votes; AGAINST - none; ABSTAINED - 1357798. The resolution was adopted by a majority of votes in the stated wording.

Representative *R. V. Bolotovsky*
by power of attorney dated October 1, 2002, No. 01/10

Date of occurrence of the fact (event, activity): March 4, 2003
Code: 0306005A04032003

The shareholder s surname, given name, patronymic: Timokhins Alexanders

Share in the charter capital before the change: 6.943%

Share in the charter capital after the change: 0%

Effective date of the change in the charter capital: March 4, 2003

Representative *R. V. Bolotovsky*
by power of attorney dated October 1, 2002, No. 01/10

Date of occurrence of the fact (event, activity): March 4, 2003
Code: 0506005A04032003

The shareholder s surname, given name, patronymic: Timokhins Alexanders

Share in the charter capital before the change: 6.943%

Share in the charter capital after the change: 0%

Effective date of the change in the charter capital: March 4, 2003

Representative *R. V. Bolotovsky*
by power of attorney dated October 1, 2002, No. 01/10

Date of occurrence of the fact (event, activity): March 11, 2003
Code: 1306005A11032003

Place of preparation of the minutes: Moscow

Date of preparation of the minutes: March,11, 2003

Form of the meeting: adoption of resolutions by remote voting (by poll)

Quantitative composition of the Board of Directors of Wimm-Bill-Dann Foods Open Joint Stock Company (hereinafter WBD Foods OJSC): 11 (eleven) persons.

The quorum and voting results at this meeting are determined taking into account the written opinions of members of the Board of Directors of WBD Foods OJSC received by WBD Foods no later than 24:00 (Moscow time), March, 08, 2003.

At the date of preparation of the minutes, 10 (ten) members of the Board of Directors had participated in voting: Guy de Selliers, M. V. Dubinin, S. A. Plastinin, V. A. Tutelyan, V. N. Sherbak, D. Iakobachvili, E. G. Yasin, E. Linwood Tipton, Michael O Neill and J. B. Mark Mobius. The meeting was quorate.

ISSUES PUT TO A VOTE AND RESULTS OF VOTING THEREON:

1. On the first matter of the agenda: Concerning approval of interested party transactions.

1.1. For the purposes of fulfilling the formal requirements of the Federal Law On Joint Stock Companies in regard to conclusion of transactions in whose completion there is a potential interest, and in view of the absence of an actual conflict of interests, be it resolved that the following transactions be approved:

1. WBD Foods OJSC hereby provides a guarantee to Hassia Verpackungsmashinen GmbH, Germany, for Siberian Milk OJSC in meeting its liabilities under the delivery of equipment agreement by Hassia Verpackungsmashinen GmbH, Germany for Euro 958 466 (beneficiary Siberian Milk OJSC).

When determining the results of voting on this matter, the votes of members of the Board of Directors without an interest in the transactions were take into account: Guy de Selliers, V. A. Tutelyan, V. N. Sherbak, E. G. Yassin, E. Linwood Tipton, Michael O Neill, and J. B. Mark Mobius.

Votes: FOR - 7 (seven) votes; AGAINST - none; ABSTAINED - none. The resolution was adopted unanimously in the stated wording.

1.2. For the purposes of fulfilling the formal requirements of the Federal Law On Joint Stock Companies in regard to conclusion of transactions in whose completion there is a potential interest, and in view of the absence of an actual conflict of interests, be it resolved that the following transactions be approved:

1. WBD Foods OJSC hereby provides a guarantee to CITIBANK for Lianozovo Dairy OJSC in meeting its liabilities under loan agreement with CITIBANK for RUR 210 000 000 + interest (beneficiary - Lianozovo Dairy OJSC)

Votes: FOR - 10 (ten) votes; AGAINST - none; ABSTAINED none.

The resolution was adopted unanimously in the stated wording.

2. On the second matter on the agenda: Concerning determination of the market value of the property in connection with the major transaction.

2.1. Since obtaining by the Company of a loan from UBS Luxembourg S.A. as part of the Company s participation in the issue and placement of eurobonds will entail the performance by the Company of a major transaction, be it resolved that the terms of the Company s participation in the issue and placement of eurobonds, including the terms of the draft Loan Agreement, the draft Subscription Agreement, the draft Trustee Costs Reimbursement Agreement and the draft Paying Agent Costs Reimbursement Agreement, comply with market conditions.

Votes: FOR - 9 (nine) votes; AGAINST 1 (one) vote (Guy de Selliers); ABSTAINED none. The resolution was adopted by majority of votes in the stated wording.

3. On the third matter of the agenda : Calling an extraordinary general shareholders meeting.

Be it resolved:

3.1. That an extraordinary general meeting of shareholders be called on the initiative of the Company s Board of Directors.

3.2. That the following terms and procedure for holding the extraordinary general meeting of shareholders of the Company be approved:

3.2.1. Form of the meeting: remote voting;

3.2.2. Deadline for receipt of ballot papers: April,24, 2003, by 24:00 Moscow time;

3.2.3. ***Postal address to which completed ballot papers are to be sent: 109028, Russian Federation, Moscow, Yauzsky boulevard, d. 16/15, room 306.***

3.3. ***That the date of compilation of the list of persons entitled to participate in the extraordinary general meeting of shareholders of the Company be set at March,23, 2003 (at the end of the registrar s business day).***

3.4. ***That the following procedure for giving notice of the extraordinary general meeting of shareholders be established: no later than 20 days before the deadline for receipt of ballot papers, a notice of the extraordinary general meeting of shareholders of the Company shall be sent, by registered letter or delivery against signature, to each person specified in the list of persons entitled to participate in the general meeting of shareholders and also be published in the Wall Street Journal (New York, USA).***

3.5. ***That ballot papers for voting on matters on the agenda and materials on the agenda matters be sent, along with the notice of the extraordinary general meeting of shareholders, by registered letter or delivery against signature, to each person specified in the list of persons entitled to participate in the general meeting of shareholders.***

Votes: FOR - 10 (ten) votes; AGAINST - none; ABSTAINED none.

The resolution was adopted unanimously in the stated wording.

4. On the fourth matter of the agenda: Including the matter concerning approval of a major transaction to the agenda of the extraordinary general shareholders meeting.

4.1. For the purpose of complying with the requirements of the Federal Law On Joint Stock Companies with respect to conclusion of major transactions, a major transaction comprising the following interrelated transactions shall be approved:

1. ***Loan Agreement between the Company and UBS Luxembourg S.A. (or any other bank appointed by UBS Luxembourg S.A. on the basis of consultations with the Company) (the Creditor Bank), under which (a) the Creditor Bank agrees to extend a loan to the Company in an amount equal to the proceeds of the offering of the Notes (the Notes) to be carried out by the Creditor Bank pursuant to the Subscription Agreement referred to in Item 2 below, and the Company agrees to make periodic payments of interest on the loan and to repay the principal amount of the loan at maturity or at an earlier date if required under the terms of the Loan Agreement; it being understood that such payments under the Loan Agreement shall be made in accordance with the principal repayment and interest payment provisions set forth in the terms and conditions of the Notes; (b) the Company undertakes to make certain other payments provided for in the Loan Agreement; and (c) the Company shall provide certain representations and warranties and undertake indemnities with respect to, and in order to facilitate, the transactions contemplated by the Loan Agreement. The loan amount to be provided to the Company by the Creditor Bank under the Loan Agreement shall be between [100 (one hundred)] million U.S. dollars and [250 (two hundred and fifty)] million U.S. dollars, depending on the market conditions prevailing at the time the Notes are offered. The interest rate shall be determined by the Company s duly authorized representatives in the person of the Chairman of the Executive Committee and/or the Chief Financial Director of the Company on the basis of consultations with UBS AG or its affiliates, depending on the market terms in the international capital markets available to Russian borrowers with similar credit ratings at the time the Notes are offered. The loan under the Loan Agreement shall be extended for a period not in excess of 5 (five) years.***

2. ***Subscription Agreement between the Company and the Creditor Bank, UBS AG or a company appointed by UBS AG, and the co-managers (or the affiliated companies of such co-managers) (UBS AG and the co-managers together, the Underwriting Banks), under which (a) the Creditor Bank as Issuer undertakes to issue and sell, and the Underwriting Banks as Initial Purchasers undertake to subscribe and pay for (or procure subscription and payment for), the Notes with a nominal value equal to the amount of the loan under the Loan Agreement, subject to fulfillment of the certain conditions precedent set forth in the Subscription Agreement, and (b) the Company provides certain representations and warranties and undertakes indemnities with respect to, and in order to facilitate, the transactions contemplated by the Subscription Agreement.***

3. ***Deed of Indemnity between the Company and the Trustee pursuant to which the Company (a) indemnifies the Trustee (to be appointed by UBS AG or any other UBS Warburg Group bank) in respect of certain costs and expenses incurred or that may be incurred by the Trustee in connection with the transaction***

contemplated by the Deed of Indemnity; and (b) assumes certain other undertakings for the benefit of the Trustee as contemplated by the Deed of Indemnity.

4. Deed of Indemnity between the Company and the Paying Agent pursuant to which the Company (a) indemnifies the Paying Agent (to be appointed by UBS AG or any other UBS Warburg Group bank) in respect of certain costs and expenses incurred or that may be incurred by the Paying Agent in connection with the transaction contemplated by the Deed of Indemnity; and (b) assumes certain other undertakings for the benefit of the Paying Agent as contemplated by the Deed of Indemnity.

4.2. That the following agenda of an extraordinary general meeting of shareholders be approved:

4.2.1. Approval of a major transaction.

Votes: FOR - 9 (nine) votes; AGAINST 1 (one) vote (J.B. Mark Mobius); ABSTAINED none. The resolution was adopted by majority of votes in the stated wording.

5. On the fifth matter of the agenda: Approval of the agenda for the extraordinary general meeting of shareholders.

Be it resolved:

5.1. That the following agenda of an extraordinary general meeting of shareholders be approved:

5.1.1. Approval of a major transaction.

5.2. That the form and text of the ballot paper be approved (Supplement # 1)

5.3.That the text of the notice of the extraordinary general meeting of shareholders be approved (Supplement # 2).

Votes: FOR - 10 (ten) votes; AGAINST - none; ABSTAINED none.

The resolution was adopted unanimously in the stated wording.

6. On the sixth matter of the agenda: Concerning approval of a decision to issue securities of Wimm-Bill-Dann Foods OJSC, to be placed on the basis of a resolution of the General Shareholders Meeting of Wimm-Bill-Dann Foods OJSC to increase its charter capital by placing additional ordinary registered shares of Wimm-Bill-Dann Foods OJSC by closed subscription.

6.1. Be it resolved that, on the basis of a resolution of the General Shareholders Meeting of Wimm-Bill-Dann Foods OJSC (Minutes No. 03-02 of February 3, 2003), the Decision to Issue Securities of Wimm-Bill-Dann Foods OJSC be approved.

Votes: FOR - 10 (ten) votes; AGAINST - none; ABSTAINED none.

The resolution was adopted unanimously in the stated wording.

43. Data on Re-organization of the Issuer, Its Associated and Dependent Companies.

OJSC WBD FOODS was created as a result of re-organization of WBD FOODS LLC , based on the decision on re-organization made by the general meeting of participants of WBD FOODS LLC . Re-organization was performed by exchanging shares of participants of WBD FOODS LLC for the stock of OJSC WBD FOODS .

44. Additional Material General Information on the Issuer.

No additional material information on the Issuer.

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B. DATA ON THE ISSUER S FINANCIAL AND ECONOMIC ACTIVITY

45. Annual Financial Reports for the Past Three Fiscal Years.

See Attachment.

46. Issuer s Financial Reports for the Reporting Period.

See Attachment.

47. Facts Leading to Increase or Decrease of the Issuer s Assets by Over 10 Percent in the Reporting Quarter.

None

Value of the Issuer s assets at the last day of the quarter preceding the reporting quarter:

6 100 081 thousand rubles

Value of the Issuer s assets at the last day of the reporting quarter: ***6 362 197 thousand rubles***

Facts Leading to Increase or Decrease of the Issuer s Assets by Over 10 Percent in the 4th Quarter of Last Year

None.

Value of the Issuer s assets at the last day of the 3 quarter of last year: ***6 018 360 thousand rubles***

Value of the Issuer s assets at the last day of the 4 quarter of last year: ***6 100 081 thousand rubles***

48. Facts Leading to Increase or Decrease of the Issuer s Profits (Loss) in the Reporting Quarter by Over 20 Percent Compared to the Previous Quarter.

None

Issuer s profits (losses) in the quarter preceding the reporting quarter: ***75 819 thousand rubles***

Issuer s profits (losses) in the reporting quarter: ***68 921 thousand rubles***

Facts Leading to Increase or Decrease of the Issuer s Profits (Loss) in the 4th Quarter of Last Year by Over 20 Percent Compared to the 3rd Quarter of Last Year

None

Issuer s profits (losses) in the 3rd quarter of last year: ***74 005 thousand rubles***

Issuer s profits (losses) in the 4th quarter of last year: ***75 819 thousand rubles***

49. Data on the Creation and Use of Issuer s Reserve and Other Special Funds.

None

50. Issuer s Deals in the Reporting Period, Equal to or Exceeding 10 Percent of the Issuer s Assets as of the End of the Previous Quarter.

50.1 Date of concluding the transaction: ***February 3, 2003***

Object and description of the transaction: ***The issuer acquires additional ordinary registered shares of Lianozovo Dairy OJSC***

Overall amount (value) of funds received (spent) by the issuer under the transaction: ***206 000 Thousand Rubles***

Share of the amount (value) of funds received (spent) by the issuer under the transaction, in issuer s assets: ***3.24 %***

Partners and beneficiaries under the transaction:

50.1.1 Name: ***Lianozovo Dairy OJSC***

Postal address: ***108A, Dmitrovskoye Shosse, Moscow, 127591***

Phone: ***105-58-05***

Fax: ***105-58-05***

Persons being interested in effecting the aforesaid transaction as per Russian Federation legislation:

M.I. Vishnyakov

M.V. Dubinin

V.Y. Yevdokimov

S.A. Plastinin

A.S. Orlov

G.A. Yushvayev

D. Yakobashvili

Ye.L. Yaroslavsky

Issuer s Authorized Body, which adopted the resolution on giving consent for concluding the transaction: ***General Meeting of Shareholders***

Date of adopting the resolution on giving consent for concluding the transaction: ***May 31, 2002***

50.2 Date of concluding the transaction: ***February 4, 2003***

Object and description of the transaction: ***The issuer grants a repayable (revolving) loan to Tsaritsino Dairy OJSC for the period of up to 3 years***

Overall amount (value) of funds received (spent) by the issuer under the transaction: ***340 103 Thousand Rubles***

Share of the amount (value) of funds received (spent) by the issuer under the transaction, in issuer s assets: ***5.35 %***

Partners and beneficiaries under the transaction:

50.2.1 Name: ***Tsaritsino Dairy OJSC***

Postal address:, ***6, 1st Varshavsky Proyezd, Moscow, 115201***

Phone: ***119-85-24***

Fax: ***113-61-47***

Persons being interested in effecting the aforesaid transaction as per Russian Federation legislation:

M.I. Vishnyakov

M.V. Dubinin

V.Y. Yevdokimov

S.A. Plastinin

A.S. Orlov

G.A. Yushvayev

D. Yakobashvili

Ye.L. Yaroslavsky

Issuer s Authorized Body, which adopted the resolution on giving consent for concluding the transaction: ***General Meeting of Shareholders***

Date of adopting the resolution on giving consent for concluding the transaction: ***February 3, 2003***

50.3 Date of concluding the transaction: ***February 5, 2003***

Object and description of the transaction: ***The issuer grants a repayable (revolving) loan to Fructoviye Reki LLC for the period of up to 3 years***

Overall amount (value) of funds received (spent) by the issuer under the transaction: ***392 041 Thousand Rubles***

Share of the amount (value) of funds received (spent) by the issuer under the transaction, in issuer s assets: ***6.16 %***

Partners and beneficiaries under the transaction:

50.3.1 Name: ***Fructoviye Reki LLC***

Postal address: ***Office 8, 2nd Floor, Building 2, House 8/10, Bryusov Per., Moscow, 103009***

Phone: ***905-40-01***

Fax: ***905-40-01***

Persons being interested in effecting the aforesaid transaction as per Russian Federation legislation:

None

Issuer s Authorized Body, which adopted the resolution on giving consent for concluding the transaction: ***Board of Directors***

Date of adopting the resolution on giving consent for concluding the transaction: ***December 11, 2002***

51. Data on the Use of Funds Raised by the Issuer as a Result of Placing Issued Securities.

51.1 State registration number of the issue: ***1-02-06005-A***

Date of state registration of the issue: ***October 30, 2001***

Total amount (value) of funds contributed in payment for securities as at the last day of the reporting period: ***2,326,204,885 thousand rubles***

Total (value) of funds used in the reporting period for each of the main areas of use:

Acquisition of interests (shares) in the charter capital of commercial organizations being affiliated companies of the Issuer ***278 700 thousand rubles***

Provision of loans to affiliated companies of the issuer and to the Companies not being affiliated companies of the issuer but whose primary activities are the production and sale of dairy products, juices, and beverages ***185 300 thousand*** rubles

Total (value) of funds used in the reporting period: ***464 000 thousand rubles.***

52. Borrowed Assets Received by the Issuer and Its Associated Companies in the Reporting Quarter

Data on the Issuer s Borrowed Assets as of the End of the Reporting Quarter:

Item Name	Balance at Year Beginning (Thousand rubles)	Received (Thousand rubles)	Paid (Thousand rubles)	Balance at the End of Reporting Quarter (Thousand rubles)
Long-term Bank Credits				
including past-due				
Other Long-term Loans				
including past-due				
Short-term Bank Credits		50 000	50 000	
including past-due				
Employee Bank Credits				
including past-due				
Other Short-term Loans		160 000		160 000
including past-due				

53. Accounts Payables and Receivables of the Issuer and Its Associated Companies for the Reporting Period.

Data on the Issuer s Accounts Payables and Receivables as of the End of the Reporting Quarter:

Item Name	Balance at Year Beginning (Thousand rubles)	Received (Thousand rubles)	Paid (Thousand rubles)	Balance at the End of Reporting Quarter (Thousand rubles)
1) Accounts Receivables:				
short-term	390 816	1 009 909	1 075 840	324 861
including past-due				
including over 3 months				
including by:				
long-term				
including past-due				
including over 3 months				
including by:				
2) Accounts Payables:				
short-term	9 948	1 109 137	1 076 426	42 635
including past-due				
including over 3 months				
including by:				
long-term				
including past-due				
including over 3 months				

including by:				
Guarantees:				
received		103 096	50 000	53 096
including third parties				
including by:				
issued	1 320 743	319 882	87 353	1 553 272
including third parties				
including by:				
3) Bill Movement:				
Issued Bills				
including past-due				
including by:				
Received Bills				
including past-due				
including by:				

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54. Issuer s Financial Investments.

Data on the Issuer s Financial Investments as of the End Date of the Reporting Period:

Item Name	Investment Amount as of the End of Reporting Quarter (Thousand rubles) Short-term (under 1 year)	Long-term (over 1 year)	Total
Investments in Russian Government notes			
Investments in regional government notes			
Investments in local government notes			
Investments in shares of other organizations		2 474 571	2 474 571
Investments in bonds and other debt instruments			
Other loans granted	2 410 918	963 382	3 374 300
Investments in the Issuer s associated companies			
Investments in the Issuer s dependent companies			

Financial Investments In Organization Liquidated In Accordance with Russian Legal Procedure

Organization Name	Liquidation date	Authority Which Made the Decision of Liquidation	Investment Amount (Thousand rubles)
Total			

Financial Investments In Organization Considered Bankrupt In Accordance with Russian Legal Procedure

Organization Name	Liquidation date	Authority Which Made the Decision of Liquidation	Investment Amount (Thousand rubles)
Total			
Issuer s Assets as of the End Date of the Reporting Period (Thousand rubles)			6 362 197

Financial Investments in Organization Constituting 10 or More Percent of the Issuer s Assets as of the End Date of the Reporting Quarter

Organization Name	Investment Amount (Thousand rubles)	Share of Assets
OJSC Lianozovo Dairy	783 829	12.320099%
OJSC Tsaritsino Dairy	669 399	10.505789%
Total	1,119,308	22.825889%

55. Other Material Information on the Issuer s Financial and Economic Activity

There is no other material information on the Issuer s financial and economic activity.

C. DATA ON THE ISSUER S SECURITIES

56. Data on the Issuer s Shares.

Issue Number: ***1***

Category: ***Common***

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

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

Quantity of Issue Shares: ***35,000,000***

Total Issue Amount: ***700,000,000***

Data on the Issue State Registration:

Date of Registration: ***15.06.2001***

Registration Number: ***1-01-06005-A***

Body of State Registration: ***Regional Office of the Federal Securities Commission of Russia in the Central Federal Region***

Offering Method: ***Exchange at re-organization***

Offering Period: ***31.05.2001 to 31.05.2001***

Present Issue State: ***Offering complete***

Number of Placed Securities in Accordance with the Registered Report of the Issue: ***35,000,000***

Data on the State Registration of the Report of the Issue:

Registration Date: ***15.06.2001***

Body of State Registration: ***Regional Office of the Federal Securities Commission of Russia in the Central Federal Region***

Limitations on Circulation of Issue Securities (if any):

No limitations.

Market Information on the Issue Securities:

Shares of this issue are not traded

Additional Information on the Issue Securities:

No additional material information on the issue securities.

Issue Number: ***2***

Category: ***Common***

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

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

Quantity of Issue Shares: ***9,000,000***

Total Issue Amount: ***180,000,000***

Data on the Issue State Registration:

Date of Registration: ***30.10.2001***

Registration Number: ***1-02-06005-A***

Body of State Registration: ***Federal Securities Commission of Russia***

Offering Method: ***Closed subscription***

Offering Period: ***from 12.02.2002 to 14.02.2002***

Present Issue State: ***Placement complete***

Number of Actually Placed Securities in accordance with the registered report on issue of securities: ***9,000,000***

Information on State Registration of the Report of the Issue:

Date of Registration: ***13.03.2002***

Body of State Registration: ***Federal Securities Commission of Russia***

Limitations on Circulation of Issue Securities (if any):

No limitations.

Market Information on the Issue Securities:

All shares of this issue were placed with Bank Trust Company [sic] without involvement of trading organizers.

Additional Information on the Issue Securities:

No other material information.

57. Data on the Issuer s Bonds.

Issue Number: ***3***

Type: **interest-bearing**

Category: **nonconvertible bearer bonds**

Form of Securities: ***Certificated***

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

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

Total Issue Amount: ***1 500 000 000***

Data on the Issue State Registration:

Date of Registration: ***March 25 2003***

Registration Number***: 4-01-06005-A***

Body of State Registration: ***Federal Securities Commission of Russia***

Offering Method: ***Open subscription***

Offering Period: ***from to***

Present Issue State: ***Placement proceeding***

Number of Actually Placed Securities in accordance with the registered report on issue of securities:

Limitations on Circulation of Issue Securities (if any):

No limitations.

Market Information on the Issue Securities:

All securities of this issue are supposed to be traded at MECIX (ZAO).

Additional Information on the Issue Securities:

No other material information

The procedure of determining of income (interest rate) on each bond

The interest rate on the first coupon will be determined according to the results of an auction held at MICEX.

The interest rate on the first coupon will be calculated as the sum of the following two components:

the level of inflation for the respective one-year period, defined as the Consumer Price Index of Russia for the calendar month ending no later than 45 days before the placement start date, as a percentage relative to the same of the preceding year, minus 100%. The CPI is calculated by the RF State Statistics Committee in accordance with a resolution of the RF State Statistics Committee dated March 25, 2002, monthly as a percentage relative to the same month of the preceding year;

an inflation premium.

The CPI will be published on the Troika Dialog Investment Company website (www.troika.ru) no later than 10 days before the placement start date.

On the day of the auction to determine the interest rate on the first coupon, members of the Stock Market Section of MICEX will submit orders for the auction using the MICEX trading system both at their own expense and at the expense and on the instructions of their clients. The time of submission of orders for the auction will be established by MICEX. Orders to buy bonds will be submitted by members of the stock market section of MICEX to the Underwriter with the following significant terms specified:

a.1) Purchase price: 100% of the face value;

a.2) Number of bonds that the potential buyer would like to acquire if the Issuer were to set an interest rate on the first coupon greater than or equal to the acceptable first-coupon interest rate specified in the order;

a.3) Acceptable interest rate on the first coupon. Acceptable interest rate on the first coupon means the interest rate at which, if such interest rate on the first coupon were announced by the Issuer, the potential investor would be prepared to buy the number of bonds specified in the order at the price of 100% of the face value. The acceptable interest rate on the first coupon shall be expressed in percent per annum to a precision of 1/100 (one-hundredth) of one percent;

Funds must be reserved in an amount sufficient to make full payment for the bonds specified in the orders, including MICEX s commission.

Orders in which one or more of the aforesaid significant terms do not conform to the requirements set forth in section a.1 a.3 and orders not backed by funds as provided in the preceding paragraph will not be accepted for the auction to determine the interest rate on the first coupon.

Upon the end of the submission period for orders for the auction to determine the interest rate on the first coupon, MICEX will prepare a register of the orders received and deliver the register to the Issuer and the Underwriter.

On the basis of an analysis of the orders submitted for the auction, the Issuer will adopt a resolution setting the interest rate on the first coupon and deliver a written copy of the adopted resolution to the Underwriter and MICEX.

1.1.5. The rate of interest on the second, third, fourth, fifth, and sixth (C_2, C_3, C_4, C_5, and C_6) shall be calculated from the level of inflation for the corresponding one-year period (as defined below). The level of inflation shall be determined on the basis of the Consumer Price Index for Russia calculated monthly by the RF State Statistics Committee in accordance with RF State Statistics Committee Resolution No. 23 of March 25, 2002, as a percentage relative to the same month of the preceding year. The interest rate on each of the aforesaid coupons shall be calculated using the following formula:

$$C_j = (C_1 - \text{Inflation } 12M_1) + \text{Inflation } 12M_j,$$

where

C_j = the interest rate for the jth coupon in percent per annum, j = 2, 3, 4, 5, 6;

C_1 = interest rate of the first coupon, in percent per annum;

Inflation $12M_1$ = the CPI calculated by the RF State Statistics Committee for the calendar month ending no later than 45 days before the date of placement of the Bonds, as a percentage relative to the same month of the preceding year, minus 100%;

Inflation $12M_j$ = the CPI calculated by the RF State Statistics Committee for the calendar month ending no later than 45 days before the start date of the jth coupon period, as a percentage relative to the same month of the preceding year, minus 100%;

(C_1 - Inflation $12M_1$) = the inflation premium calculated after determination of the interest rate on the first coupon to a precision of 1/100 (one-hundredth) of one percent;

The CPI is provided by the RF State Statistics Committee upon request. The CPI will be published on the website of Troika Dialog Investment Company (www.troika.ru) 10 days before the start of the respective coupon period.

If a negative value for C_j is obtained from the formula specified above, C_j shall be taken as equal to zero; if the obtained value of C_j is greater than 25%, C_j shall be taken as equal to 25%.

If, during the period of circulation of the Bonds, the official procedure for calculating the CPI and the normative act establishing the procedure for calculating the CPI are altered or the CPI is replaced by an index similar in purpose to the CPI, the interest rate for a coupon will be determined using the CPI (or its similar replacement) calculated in accordance with normative acts in force at the time of its calculation.

If information on the CPI is not published by the RF State Statistics Committee and not published on the Internet website of Troika Dialog Investment Company by the date necessary to calculate the interest rate for a coupon (as set forth above), the value of Inflation $12M_j$ for that coupon shall be taken as equal to the value of Inflation $12M_j$ for the preceding coupon.

Grounds for early redemption of Bonds

For purposes of defining the grounds for early redemption of Bonds, the following definitions are used:

Issuer Group - all companies, including the Issuer, consolidated for purposes of the Issuer s Consolidated and Combined Financial Statements, which are prepared in accordance with United States Generally Accepted Accounting Principles (US GAAP). The companies in the Issuer Group as at the end of 2002 are listed in the Issuer s Consolidated and Combined Financial Statements for 2002.

Issuer Group Company - a company in the Issuer Group;

Issuer s Consolidated and Combined Financial Statements - the consolidated and combined financial statements of the Issuer, prepared in accordance with US GAAP.

Net Assets - Assets minus liabilities and minority interests, according to the Issuer s Consolidated and Combined Financial Statement.

EBITDA - earnings before interest, taxes, depreciation, and amortization, adjusted taking into account minority interests, according to the Issuer s Consolidated and Combined Financial Statements. If the Issuer has made investments in consolidated subsidiary companies during the period for which EBITDA is calculated, EBITDA is calculated as if the investments were made on the first day of that reporting period.

Debt - debt in the form of bank credits, loans, and commodity and commercial credits obtained by Issuer Group Companies, and/or promissory notes and/or bonds issued by Issuer Group Companies, except loans between Issuer Group Companies.

Bondowners are entitled to present Bonds for early redemption upon the occurrence of any of the following events (Grounds for Redemption):

1. Delinquency of more than 15 (fifteen) days in performance by Issuer Group Companies of their obligations with respect to payment of principal debt and/or interest on bank credits/loans received by them and/or represented by promissory notes and/or bonds issued by Issuer

Group Companies, in cases when:

a) the principal debt represented by an overdue obligation (i.e., the amount of the credit/loan (not including accrued interest), the total face value of promissory notes, or the total face value of a bond issue) is greater than 10,000,000 (ten million) U.S. dollars or the equivalent thereof at the exchange rate of the Central Bank of the Russian Federation (RF Central Bank) on the due date of the respective obligation; and

b) the total amount of overdue debt of Issuer Group Companies represented by the overdue obligation specified in subsection a) above is greater than 2,500,000 (two million five hundred thousand) U.S. dollars or the equivalent thereof at the exchange rate of the RF Central Bank on the due date of the respective obligation.

2. A change, within any 12 (twelve) successive months, beginning from the placement date of the Bonds, of more than half of the personnel on the Issuer s Board of Directors relative to its composition at the start of the 12-month period.

3. A decrease in the value of the Issuer Group s Net Assets (in the ruble equivalent at the exchange rate of the RF Central Bank on the date of the respective Consolidated and Combined Financial Statements) by more than 25% (twenty-five percent) relative to the value of its Net Assets according to the Issuer s Consolidated and Combined Financial Statements for 2002.

4. As at any reporting date, according to the Issuer s Consolidated and Combined Financial Statements, an increase in the Issuer Group s Debt relative to its Debt as at the preceding reporting date, if the ratio of total debt according to the Issuer s Consolidated and Combined Financial Statements to its EBITDA for the four quarters ending on the reporting date exceeds 4:1, with the exception of:

a) additional Debt totaling no more than 100,000,000 (one hundred million) U.S. dollars;

b) short-term Debt, in the form of credits obtained for a period of no more than 5 (five) business days in each case;

c) Debt not exceeding 15,000,000 (fifteen million) U.S. dollars (or the equivalent at the exchange rate of the RF Central Bank on the reporting date), arising under derivative financial instruments concluded for the purpose of insuring risks associated with the Issuer Group s business operations. For purposes of this subsection,   derivative financial instrument   means an agreement, to which an Issuer Group Company is a party, which defines the rights and obligations of the parties thereto in relation to an underlying asset defined in accordance with applicable law. Derivative financial instruments include options and forward contracts, as well as agreements that do not provide for the delivery of the underlying asset, but which define the procedure for settlements between the parties in the future in dependence on a change in some indicator of the underlying asset relative to the value of that indicator determined (or the procedure for determining which is established) by the parties at the time of entry into the transaction;

d) Debt acquired for the purpose of refinancing current Debt of the Issuer Group. For purposes of this subsection,   refinancing   means the acquisition of Debt by an Issuer Group Company exclusively for the purpose of repaying Debt of the Issuer Group existing on the preceding reporting date, provided that (i) the amount of Debt acquired does not exceed the amount of Debt being repaid; (ii) the term of the acquired Debt is not less than the remaining term of the existing portion of Debt being repaid and (iii) all other material conditions of the acquired Debt are not materially less favorable to the debtor than the terms of the Debt being repaid.

Procedure for disclosure by the Issuer of information concerning the occurrence of a Ground for Redemption of Bonds, and of other material information

Immediately upon becoming aware of it, Issuer is obligated to provide the Underwriter with information concerning the occurrence of any Ground for Redemption, as well as information on changes in the list of the companies forming the Issuer Group; changes in the composition of the Issuer s Board of Directors; and information on actions taken by the Issuer/an Issuer Group Company that result in the elimination of a Ground for Redemption of Bonds.

For the purpose of enabling owners of Bonds to verify the presence/absence of Grounds for Redemption of Bonds, the Underwriter will on a quarterly basis, in the manner specified below, disclose the following information, subject to its receipt from the Issuer:

1) the Issuer s Consolidated and Combined Financial Statements;

2) the composition of the Issuer Group;

3) the composition of the Issuer s Board of Directors;

All information received by the Underwriter from the Issuer of the Bonds must be published within 5 (five) business days of its receipt, by placement on the Underwriter s website (www.troika.ru). When the information concerns the occurrence of a Ground for Redemption and the start date of acceptance of early redemption applications by the Issuer, such information shall also be published in the newspaper Vedomosti.

Early redemption procedure and conditions

The Issuer will perform early bond redemption on the basis of an application from the owner of the Bonds containing a request for early redemption, or on the basis of the presentment of such a request. Therewith, owners of Bonds are entitled to present Bonds for early redemption only after the registration of the Report on Results of the Bond Issue.

If information subject to disclosure in the manner specified above contains information concerning actions taken by an Issuer Group Company that result in the elimination of a Ground for Early Redemption, an owner of Bonds is not entitled to present a demand for early redemption, provided that the owner knew or could have learned about the occurrence of the Ground for Early Redemption from such information.

During the 5 (five) business days following the later of the dates of publication by the Underwriter in the Vedomosti newspaper and on the Underwriter s site of information concerning the occurrence of any Ground for Early Redemption of Bonds and concerning the start date of acceptance of early redemption applications (Period for Presentment of Bonds for Early Redemption), owners of Bonds or nominee holders authorized to present Bond for early redemption are entitled to present Bonds for early redemption by sending a corresponding application in writing to the Underwriter.

An application for early redemption must contain the full name of the owner of the Bonds or, if the application is submitted by a nominee holder, the full name of the nominee holder, and other information prescribed in the information published by the Underwriter. Attached to the application for early redemption must be original copies of documents (extract from a depository account) issued by the Depositary and attesting that the Bonds presented for early redemption have been blocked (restriction on the withdrawal of Bonds from an owner s depository account, including an account opened by a nominee holder),

as well as other documents specified in the information published by the Underwriter. If the applicant is a nominee holder, documents confirming the authority of the nominee holder to present Bonds for early redemption must be attached to the application.

An owner of Bonds is also entitled to send an early redemption application to the Underwriter if information concerning the occurrence of a Ground for Redemption has been received by the owner from third parties, provided, however, that at the time the application is presented the Underwriter has not published information concerning the Ground for Redemption specified in the application. In such case, the application must contain, in addition to the documents and information specified above, the grounds for presentment of such application and references to the source of the information. Within 5 (five) business days of receiving such an application, the Underwriter must publish information concerning the start of acceptance of early redemption applications in the manner specified above or send a reasoned refusal of early redemption to the applicant, including by reason of elimination of the Ground for Redemption.

From the time the Underwriter receives a written early redemption application from an owner or nominee holder, no operations of the owner with the Bonds contemplated by the application will be performed, except operations involved in the redemption of the Bonds and/or payment of income thereon.

No later than 5 (five) business days after the end date of the acceptance of early redemption applications, the Underwriter will provide the Issuer, the Payment Agent, and the Depositary with a list of the owners and/or nominee holders who submitted applications for early redemption of Bonds within the Period for Presentment of Bonds for Early Redemption. The list must include the following information on each person who presented Bonds for early redemption:

the full name of the owner of the Bonds or, if the application is submitted by a nominee holder and the nominee holder has been authorized to receive early redemption payments, the full name of the nominee holder;

the number of Bonds to be redeemed early;

the location and postal address of the owner of the Bonds or, if the application is submitted by a nominee holder and the nominee holder is authorized to receive early redemption payments, the location and postal address of the nominee holder;

the tax status of the person or entity authorized to receive early redemption payments: (resident; nonresident carrying out activity in the Russian Federation through a permanent representative office; nonresident receiving income unassociated with a permanent representative office; individual tax residents of the Russian Federation; individual present in the territory of the Russian Federation for at least 183 days in a calendar year; foreign national; stateless person);

identifying details of the bank account of the person or entity authorized to receive early redemption payments.

Payment of funds associated with early redemption of the Bonds will be made by the Payment Agent, acting on the Issuer s instructions, within 2 (two) business days following the date of receipt by the Payment Agent of the list of owners and/or nominee holders who sent early redemption applications, subject to the receipt of corresponding funds from the Issuer. The funds required by the Payment Agent to perform early redemption must be transferred by the Issuer to the Payment Agent s account no later than 2 (two) business

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days after the date of receipt by the Issuer of the list of owners and/or nominee holders who submitted early redemption applications.

Bonds presented for early redemption will be redeemed at their face value, equal to 1,000 (one thousand) rubles; at the same time, their owners will be paid coupon income on the Bonds for the coupon period during which the Bonds were presented for early redemption, calculated from the start of such period to the date of early redemption.

The entity providing security for purposes of the bond issue : Vitafrukt Limited Liability Company.

Kind of security: guarantee

Amount of provided security: 1 500 000 000

Placement of bonds is carried out in the 2 quarter 2003

D. OTHER DATA ON THE ISSUER S SECURITIES.

58, 59, 60. Rights of the Issuer s Shareholders. Dividends on the Issuer s Shares.

58.1

Category of Shares: Common

Form of Shares: Registered, uncertificated

Full Name of Category/Form of Authorized Shares: Registered common shares, uncertificated

Holder Rights for Shares of this Category (Type):

According to the Company s Charter:

8.1. Each common share of the Company grants the shareholder who owns it an identical amount of rights.

8.2. Shareholders owning common shares of the Company may in accordance with the Federal Law on Joint Stock Companies and the Company s charter participate in the General Meeting of Shareholders with the right to vote on all issues within its competence, and are entitled to receive dividends and, in the event of the Company s liquidation, a part of its property.

8.3. A shareholder also has the right:

8.3.1. To elect and be elected to the management and supervisory bodies of the Company;

8.3.2. To obtain information from the Company s management bodies in the manner established by current Russian legislation and by this Charter.

8.3.3. To appoint his own representative(s) to exercise his voting right and other rights granted by shares of the Company.

8.4. Shareholders owning common shares also have other rights granted to them by this Charter and by current legislation.

8.5. Conversion of common shares into preferred shares, bonds, or other issued securities is not permitted.

In accordance with the Russian law, shareholders have other rights, including, but not limited to:

1. Shareholder of open joint stock companies may dispose of their shares without the agreement of other shareholders of the company.

2. Shareholder or nominee holder may request that they be entered in the registry of the company s shareholders no later than three days from the date of submission of documents

required by the Russian legislation. A refusal to entry in the registry of the company s shareholders may be appealed in court.

3. Shareholder or nominee holder may request that the keeper of the registry of the company s shareholders confirm their right to shares by issuing an abstract from the registry of the company s shareholders, which is not a security.

4. Shareholder may appeal in court a decision made by the general meeting of shareholders in violation of the provisions of the Act on Joint Stock Companies, other legislation of the Russian Federation, or the company s Charter, if he/she did not participate in the general meeting of shareholders or voted against such decision, and the decision violates his/her rights and legal interests. The court may, upon considering all circumstances of the case, leave such decision effective if the vote of such shareholder could not affect the outcome of the voting, the violations were immaterial, and the decision did not cause damage to such shareholder.

5. Shareholder(s) owning a total of 2 or more percent of the company s voting shares may, no later than 30 days from the end of the company s fiscal year, if the company s Charter does not stipulate a larger period, suggest no more than two issues for the agenda of the annual general meeting of shareholders and nominate candidates to the company s Board of Directors and Inspection Commission, the number of them not to exceed the size of these bodies. A decree of the company s Board of Directors refusing entry of an issue in the agenda of the annual general meeting of shareholders or of a candidacy in the list of candidates to the company s Board of Directors and Inspection Commission may be appealed in court.

6. Shareholder(s) owning a total of 10 or more percent of the company s voting shares as of the date of request, may request an extraordinary general meeting of the company s shareholders. A decree of the company s Board of Directors refusing an extraordinary general meeting of shareholders may be appealed in court. If the company s Board of Directors does not make a decision on holding an extraordinary general meeting or on refusing an extraordinary general meeting, persons requesting such meeting may hold an extraordinary general meeting of shareholders.

7. Shareholder(s) owning a total of 1 or more percent of the company s offered equity shares may file a lawsuit against a member of the company s Board of Directors, company s individual executive body (President of the Board), or a member of company s collective executive body (the Board) to cover the damage to the company, as stipulated in Section 71(2) of the Act on Joint Stock Companies.

8. Shareholders owning voting shares may request that the company buy all or part of their shares in the following cases: re-organization of the company or completion of a large-scale deal, decided upon by the general meeting of shareholders in accordance with Section 89(2) of the Act on Joint Stock Companies, if they voted against such deal or did not participate in the voting on these issues; change or amendments to the company s Charter, or approval of the new edition of the Charter, limiting their rights, if they voted against such decision or did not participate in the voting.

9. Shareholder(s) owning a total of 10 or more percent of the company s voting shares, may at any time request an inspection (revision) of the company s financial and economic activity.

10. Shareholder may request that the company provides him/her with paid copies of documents, listed in Section 89(1) of the Act on Joint Stock Companies, and other company documents, as stipulated in the Russian legislation.

11. Other rights, as stipulated by the current Russian law.

Dividends on Shares of this Category (Type):

Period: 2001, First half

Dividends Accrued per Share (rub.): 0

Total Amount of Dividends Accrued to Shares of this Category (Type) (rub.): 0

Total Amount of Dividends Paid to Shares of this Category (Type) (rub.): 0

Period: 2001, 9 months

Dividends Accrued per Share (rub.): 0

Total Amount of Dividends Accrued to Shares of this Category (Type) (rub.): 0

Total Amount of Dividends Paid to Shares of this Category (Type) (rub.): 0

Period: 2001

Dividends Accrued per Share (rub.): 0

Total Amount of Dividends Accrued to Shares of this Category (Type) (rub.): 0

Total Amount of Dividends Paid to Shares of this Category (Type) (rub.): 0

Period: 2002, first quarter

Dividends Accrued per Share (rub.): 0

Total Amount of Dividends Accrued to Shares of this Category (Type) (rub.): 0

Total Amount of Dividends Paid to Shares of this Category (Type) (rub.): 0

Period: 2002, first half

Dividends Accrued per Share (rub.): 0

Total Amount of Dividends Accrued to Shares of this Category (Type) (rub.): 0

Total Amount of Dividends Paid to Shares of this Category (Type) (rub.): 0

Period: 2002, 9 months

Dividends Accrued per Share (rub.): 0

Total Amount of Dividends Accrued to Shares of this Category (Type) (rub.): 0

Total Amount of Dividends Paid to Shares of this Category (Type) (rub.): 0

Amount of Dividends Accrued per Share of this Category (Type) with Due Date Yet to Come (rub.): 0

61. Limitations on the Circulation of Securities.

See sections 56 and 57

62. Other Material Information on the Issuer s Securities.

There exists no other material information.

ATTACHMENT

Financial Statements
for 2001

ACCOUNTING POLICY

ACCOUNTING POLICY

Accounting Policy in 2001

1. General provisions

1.1. The accounting of OJSC Wimm-Bill-Dann Foods is done in accordance with regulatory documents defining methodological foundations and procedures for the organization and maintenance of accounting records:

- ***the Federal Law On Accounting, No. 129-FZ of November 21, 1996;***
- ***the Regulation on Accounting and Reporting in the Russian Federation;***
- ***the Chart of Accounts for Financial and Business Activity of Enterprises; accounting regulations;***
- ***other regulatory documents, methodological instructions, and materials on accounting issues, as amended.***

1.2. Accounting of property, obligations, and business transactions is done on the basis of natural measures in monetary terms by means of their thorough, uninterrupted, documented, and interrelated reflection.

1.3. The objectives of accounting are:

- ***to form complete and accurate information on business processes and results of the organization s activity;***
- ***to provide control over the presence and movement of property and the use of material, human, and financial resources;***
- ***timely warning of negative occurrences in financial and business activity;***
- ***identification and mobilization of intracompany reserves.***

1.4. The accounting policy of the organization has been developed on the basis of the following requirements of accounting records:

- ***completeness,***
- ***timeliness,***
- ***prudence,***
- ***priority of substance over form,***

no contradiction, and

rationality,

and also on the basis of the following assumptions:

the assumption of autonomy of assets,

the assumption of the definitive placement of facts of business activity in terms of time;

the assumption of consistency of accounting policy.

1.5. Liability for organization of accounting is borne by the director of the enterprise.

1.6. The chief accountant of the organization ensures control of all business transactions and their reflection in the accounts, and the submission of operative and resultative information within the established times.

1.7. The chief accountant of the organization, jointly with the director of the enterprise, signs documents serving as the basis for acceptance of materials assets, cash amounts, and payment, lending, and financial instruments.

1.8. The chief accountant of the organization does not have the right to accept for performance and execution documents in respect of transactions that are contrary to legislation or in violation of contract and financial discipline.

1.9. Internal reports are prepared, formalized, and presented in accordance with regulations, directives, and orders relating to the organization.

2. Organizational and technical section

2.1. Accounting in the organization is carried out by the accounting department as an independent structural unit headed by the chief accountant. The employees of the accounting department are guided in their activity by the job descriptions of employees of the accounting department.

2.2. The organization compiles external and internal financial statements as the final stage of accounting. External financial statements include:

1) balance sheet;

2) income statement;

3) attachments to the balance sheet;

4) auditor s opinion confirming the reliability of financial statements;

5) explanatory notes.

The composition of internal reports and their forms, frequency, and periods of preparation and provision, and the list of persons responsible for preparing internal reports and list of potential users are approved by internal orders and directives relating to the organization.

3. Selected accounting methods

3.1. Accounting in the organization is conducted in the ledger-and-order form of double-entry accounting according to the chart of accounts.

3.2. Accounting in the organization is done on the basis of source accounting documents. Unified forms approved by the State Statistics Committee (Goskomstat) are used as source accounting documents. Also used in the organization are source accounting forms containing obligatory information, developed within the organization and approved by corresponding orders and directives.

The basis for entries in the accounting ledgers is source documents, which must be prepared at the time the business transaction is executed or immediately after the end of the transaction and contain obligatory information:

the name of the document (form);

the form code;

the date of preparation;

the name of the organization in whose name the document is prepared;

the substance of the business transaction;

measures of the business transaction (in real and monetary terms);

names of the officers responsible for performance of the business transaction and its proper formalization;

personal signatures and transcriptions of their names.

3.3. Information contained in source documents accepted for recording and required for reflection in accounting records is accumulated and systematized in accounting ledgers developed and recommended by the Ministry of Finance of the Russian Federation and the agencies authorized by Federal Laws to regulate accounting.

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Information on business transactions conducted over a certain period of time are transferred from the accounting ledgers in grouped form to the financial statements.

3.4. Unstipulated adjustments to source documents and accounting ledgers are not permitted. Error adjustments must be confirmed by the signature of the persons who signed the document, accompanied by indication of the date of the adjustment. Adjustments to cash and banking documents are not permitted.

3.5. Source documents, accounting ledgers, and financial statements are subject to compulsory storage in accordance with the established procedure and periods. Responsibility for ensuring the safekeeping of these documents during work with them and for their timely transfer into archives is borne by the chief accountant.

4. Appraisal of property, obligations, and business transactions

4.1. Property, obligations, and business operations are subject to appraisal for the purpose of their reflection in accounting records and reports. Appraisals are made in monetary terms by summation of actually incurred expenses.

Other forms of appraisal are used in the cases established by Russian Federation legislation, regulatory acts on accounting, and this Regulation [sic], or other regulatory acts of the Russian Federation.

4.2. The organization makes appraisals of property, obligations, and business transactions in the currency in use in the territory of the Russian Federation, i.e., in rubles.

4.3. Entries in accounting records relating to foreign-currency denominated accounts of the organization, as well as its transactions in foreign currency, are made in the currency in use in the Russian Federation, in amounts determined by conversion of the foreign currency at the rate of the Central Bank of the Russian Federation in effect on the date of performance of the transaction. Simultaneously these entries are made in the currency of settlements and payments.

4.4. Penalties, fines, and forfeitures for breach of contract are recognized in accounting records in the same period in which they are acknowledged by the debtor or awarded by a court decision.

5. Inventorying

5.1. For purposes of ensuring the reliability of accounting data and reports in the organization, inventorying of property and obligations is conducted, in the course of which their existence, condition, and appraisal are verified and documentarily confirmed. Inventorying is conducted in accordance with RF Ministry of Finance Order No. 49 of June 13, 1995, On Approval of Methodological Instructions for Inventorying of Property and Financial Obligations.

5.2. The number of times inventorying is to be conducted during a reporting year, the dates of each, and the list of property and obligations to be verified in each instance are established by the organization, except in cases when inventorying is obligatory:

when property of the enterprise is leased, redeemed, or sold;

prior to the preparation of annual financial statements, with the exception of property inventoried no earlier than October 1 of the reporting year. Fixed assets are inventoried once every three years; library resources are inventoried once every five years.

in case of replacement of materially liable persons (at the day of transfer of files);

in case of establishment of facts of embezzlement and abuse, or establishment of deterioration of inventory;

in case of fire or acts of God;

in case of possible liquidation of the enterprise, prior to the preparation of a liquidation balance sheet;

in other cases provided by legislation of the Russian Federation.

The results of inventorying are formalized in a protocol signed by the members of the committee and approved by the director of the organization.

5.3. If discrepancies between actual presence of property and accounting data are identified in the course of inventorying, they are regulated in the following manner:

5.3.1. A surplus of fixed assets, tangible assets, cash amounts, and other property are received and entered to the financial results of the organization s business activity for the month in which inventorying ended.

5.3.2. Shrinkage of inventory within statutory limits is written off accordingly to production (distribution) costs pursuant to a directive issued by the director of the organization.

5.3.3. Shortages of tangible assets, cash amounts, and other property, including deterioration exceeding standard rates for natural shrinkage, are attributed to the persons responsible. In cases when the persons responsible are not established or a court declines to order recovery from them, losses from shortages and deterioration are written off to financial results

5.4. Surpluses and shortages resulting from resorting may be mutually offset only, by way of exception, when made in the same period being verified, attributed to the same person being verified, in relation to inventory assets of the same kind and in identical quantities, and pursuant to a directive issued by the director of the organization.

6. Rules for appraisal of accounting items. Investments in non-current assets

6.1. Included in capital investments are expenses for construction and assembly work, acquisition of equipment, tools, and implements, and other capital work and costs. Capital investments are reflected in the balance sheet according to actual costs.

6.2. Works of capital construction in a state of temporary operation are not included in fixed assets until transferred into permanent operation. Costs relating to these items are reflected in accounting records and reports as capital investments in progress.

7. Financial investments

7.1. Financial investments are investments of the organization into state securities (bonds and other debt instruments), securities, contributions into the charter capital of other organizations, and loans to other organizations in the Russian Federation and elsewhere. All financial investments are recorded on account 58.

8. Fixed assets

8.1. Fixed assets are the portion of property used as means of labor in the production of products (work, services) for an extended period of time, i.e., having a useful life longer than 12 months, or longer than the ordinary operating cycle if it exceeds 12 months.

8.2. Fixed assets include buildings, constructions, machinery and equipment, measuring and regulating devices and instruments, computer hardware, vehicles, tools, production and business implements and supplies, and other corresponding items.

Land and natural resources (water, subsoil, and other natural resources) owned by the plant and capital investments into leased fixed assets are accounted as fixed assets.

8.3. Fixed assets are accounted in the enterprise in accordance with PBU 6/01, Accounting of Fixed Assets, approved by RF Ministry of Finance Order No. 26n of March 30, 2001 (as amended), the Methodological Instructions on Accounting of Fixed Assets approved by RF Ministry of Finance Order No. 33n of July 20, 1998 (as amended), and other regulatory acts.

Fixed assets are accepted for the purpose of accounting at their initial value, i.e., the amount of actual expenses for their acquisition, construction, and production, not including the value-added tax and other applicable taxes (except in the cases provided by the legislation of the Russian Federation). Actual expenses for acquisition, construction, and production of fixed assets are:

1. amounts payable to the supplier (seller) in accordance with a contract;

2. amounts payable to organizations for completion of work under construction subcontract agreements and other contracts;

3. amounts payable to organizations for informational and consulting services associated with the acquisition of fixed assets;

4. registration fees, government duties, and other similar payments made in connection with the acquisition (obtainment) of rights to a fixed asset item;

5. customs duties;

6. unrecoverable taxes paid in connection with the acquisition of a fixed asset item;

7. fees payable to an intermediary organization through which a fixed asset item was purchased;

8. other expenses directly associated with the acquisition, construction, and production of a fixed asset item in particular, interest on borrowed funds that accrued prior to the acceptance of a fixed asset item for accounting, if the funds are borrowed for the purpose of acquiring, constructing, or producing the item.

8.4. Actual expenses for acquisition and construction of fixed assets are determined taking into account exchange-rate differences that arise in cases of payment in rubles in the equivalent of amounts denominated in a foreign currency (conventional monetary units).

8.5. The initial value of fixed assets paid into the organization s charter capital is measured as their cash value as approved by the organization s founders (participants), unless otherwise provided by current legislation of the Russian Federation.

8.6. The initial value of fixed assets acquired in exchange for property other than cash is determined with reference to the value usually assigned to similar goods (assets) by the organization in comparable circumstances.

8.7. The value at which fixed assets were accepted for the purpose of accounting is not subject to change except in the cases established by legislation of the Russian Federation.

A change in the initial value of fixed assets is permitted in cases of additions, betterments, reconstruction, and partial liquidation of fixed asset items.

8.8. Revaluation of fixed assets is done in accordance with current legislation of the Russian Federation no more than once a year.

An increase in the carrying amount of a fixed asset item as a result of revaluation is debited to account 01, Fixed Assets, and credited to account 83, Revaluation Surplus. A revaluation increase equal to decreases made in preceding reporting periods and debited to account 91, Organization s Expenses, as a non-sales expense is credited to account 91, Organization s Income, as non-operating income.

A revaluation decrease in the carrying amount of a fixed asset item is assigned to the other income and expenses account (acct. 91).

A revaluation decrease in the carrying amount of a fixed asset item is charged against the revaluation surplus formed from revaluation increases of the same item made in preceding reporting periods. The excess of a revaluation decrease over the revaluation

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increase credited to the revaluation surplus in previous periods is recognized as a non-sales expense in the other income and expenses account (acct. 91).

When a fixed asset item is disposed of, the amount of its revaluation increase is transferred from the organization s revaluation surplus as non-operating income to the other income and expenses account (acct. 91).

8.9. The value of the organization s fixed assets is recovered through depreciation. Depreciation is calculated in accordance with the Resolution No. 1072 of October 22, 1990, of the USSR Council of Ministers, On Unified Rates of Depreciation for Full Recovery of Fixed Assets in the National Economy of the USSR.

The straight-line method of depreciation is used in the organization.

8.10. Wear and tear (depreciation) with respect to production-related fixed assets is reflected in the accounting records by a credit to account 02 in correspondence with expense accounts for production and distribution costs, and with respect to fixed assets leased out under a current lease and non-production-related fixed assets, to the sources of financing.

8.11. Fixed asset items with a unit value of 2,000 rubles or less as well as purchased books, booklets, and other similar publications are charged as production costs (selling costs) as they are issued to production or operation.

8.12. Previously used fixed assets are depreciated on the basis of their actual time of use and expected useful life. The expected useful life is calculated as the difference between the useful life calculated for new items and the period of actual use.

In accordance with current legislation, the following items are not depreciated:

fixed asset items whose consumer attributes do not change over time (housing facilities (houses, hostels, apartments, etc.));

assets laid up in accordance with the established procedure;

land improvements;

road facilities;

perennial plants that have not reached production age;

land and natural resources.

8.13. The recognition of depreciation charges for a fixed assets item may not be suspended during its useful life unless by decision of the director of the organization it is either laid up for a period of more than three months or transferred into restoration period lasting more than 12 months.

After the end of reconstruction, re-equipment, or modernization, the corresponding costs may increase the initial value of the item if its initial performance is improved by the modernization; in the month following the month in which an increase in value took place, depreciation proceeds on the basis of the restored value of the item, but without an increase in the initially established depreciation period.

8.14. For the purpose of accounting for disposal of fixed assets (sale, write-off, partial liquidation, etc.), a subaccount, Disposal of Fixed Assets, is created under account 01, Fixed Assets. The value of a disposed fixed asset item is debited to this subaccount, while accumulated depreciation is credited to account 02, Amortization of Fixed Assets. The residual value of a disposed fixed asset is charged as a credit against account 01 and debited to account 91, Other Income and Expenses.

8.15. Costs for all types of repairs (current, medium-term, and capital) of fixed production assets are included in the cost price of products according to the respective cost components without formation of a repair fund.

9. Intangible assets

9.1. Intangible assets are accounted in accordance with Accounting Regulation PBU 14/2000, approved by RF Ministry of Finance Order No. 91n of October 16, 2000.

Assets meeting the following criteria are deemed intangible:

lack of a material (physical) structure,

possibility of identification (isolation, separation) of the asset from other property,

use in the production of products, in the performance [of work], or the rendering of services, or for administrative needs of the organization,

long-term use (i.e., with a useful life exceeding 12 months),

ability to bring future economic benefits (income) to the organization;

availability of properly executed documents that confirm the existence of the asset itself and the organization s exclusive right to the results of intellectual activity (patents, certificates, other documents of title, etc.).

The following works of intellectual property (exclusive right to the results of intellectual activity) are deemed intangible assets:

a patenter s exclusive right to an invention, industrial design, or model;

exclusive copyright in computer programs and databases;

an owner s exclusive right in a trademark;

property right of an author or other right holder in an integrated circuit topography;

goodwill of the organization;

start-up costs (expenses associated with the formation of a legal entity, recognized in accordance with the foundation documents as a part of the contribution of participants to the charter (reserve) capital).

9.2. Intangible assets are reflected in accounting records and reports in the amount of the actual expenses for acquisition, creation, and production, as well as expenses for preparing them for their intended use.

The initial value of intangible assets received as a contribution to the charter capital is based on a cash value agreed upon by the founders (participants) of the organization, unless otherwise provided by law.

The carrying amount of intangible assets is not subject to change from the initially recorded value, except in the cases established by RF legislation.

9.3. Intangible assets are initially recognized in accounting records as a debit to account 04 in correspondence with account 08.

9.4. Intangible assets are amortized in the organization by the straight-line method, on the basis of the initial value of the assets and amortization rates calculated on the basis of the useful life of the item.

9.5. The useful life of intangible assets is determined by the organization at the time the item is initially recognized in accounting records. If the useful life an intangible asset cannot be determined, amortization rates are based on a twenty-year amortization period (but the amortization period cannot exceed the period of activity of the organization).

9.6. Amortization charges on intangible assets are recognized as credits to account 05 in correspondence with expense accounts for production and distribution costs.

9.7. When intangible assets are derecognized, their value recorded in account 04, Intangible Assets, is reduced by the amount of accumulated amortization (with a debit to account 05, Amortization of Intangible Assets). The residual value is credited to account 04 and debited to account 91, Other Income and Expenses.

10. Acquisition, preparation, and recording of production inventories and their writedown.

10.1. Inventories are accounted on the basis of Accounting Regulation PBU 5/98, approved by RF Ministry of Finance Order No. 25n of June 15, 1998.

Inventories include:

- ***raw materials;***
- ***consumables;***
- ***fuel;***
- ***packaging;***
- ***spare parts;***
- ***construction materials;***
- ***implements and business supplies.***

10.2. Inventories are reflected in accounting records and reports under account 10, Materials, at actual cost price.

10.3. Actual cost price is determined on the basis of costs for their acquisition:

1) amounts payable to the supplier in accordance with a contract, excluding the value-added tax;

2) customs duties and other charges;

3) expenses related to procurement and transportation of inventories to the place of use thereof, including insurance costs;

4) fees payable to an intermediary organization through which the inventories were purchased;

5) unrecoverable taxes paid in connection with acquisition;

6) other costs directly associated with acquisition.

10.4. In the cases provided for by legislation, the cost price of inventories includes the VAT paid in conjunction with their acquisition.

The actual expenditure of materials in production or for other business purposes is credited to account 10 in correspondence with expense accounts for production or other corresponding accounts.

10.5. Items with a value less than 1/20th of the statutory limit are fully charged off as they are transferred into production.

10.6. When materials are disposed of (sale, write-off, gratuitous assignment, etc.), their value is debited to account 91, Other Income and Expenses, and credited to account 10, Materials.

11. Accounting of production costs, distribution of expenses, and calculation of cost price

11.1. For the purpose of accounting for the organization s production costs relating to ordinary activities, the chart of accounts provides accounts 20, 26, and 44.

11.2. Administrative expenses are accumulated accordingly in account 26, General Business Expenses.

11.3. Administrative expenses are distributed in proportion to the revenue, before taxes and on the basis of the selling price, received from each type of activity as a portion of total revenue. For the purpose of determining total revenue for trade activity, gross profits are used; for the purpose of determining total revenue for other types of activity, revenue from the sale of products (work, services) is used..

Administrative expenses are charged to sold products (debited to account 90) at the end of the reporting period.

12. Method of determining revenue from the sale of products

12.1. Revenue from the sale of products (work, services) for purposes of taxation is determined on an as-shipped basis and as settlement documents are presented to buyers according to accounting data using the accrual method.

The selected method of determining revenue extends to:

sale of products (goods, work, services),

sale of fixed assets,

sale of other assets.

If a contract provides that ownership (possession, use, disposal) of goods passes only after payment (offset of reciprocal claims) has been made, or after obligations have been fulfilled by both parties, for example, under a barter agreement, the revenue is deemed to form upon the fulfillment of all contractual conditions.

The cost price of products, goods, work, and services for purposes of taxation is adjusted in accordance with the Regulation on the Composition of Costs for Production and Sale, approved by RF Government Decree No. 552 of August 5, 1992, for expenses required to be attributed to the cost price for purposes of taxation.

13. Other operating income and expenses

13.1. Other income and expenses of the organization are recognized in accounting records in accordance with accounting regulations PBU 9/99 and PBU 10/99 and reflected on account 91, Other Income and Expenses.

13.2. Other income and expenses are recognized for purposes of taxation with regard to the profit tax in accordance with accounting rules.

13.3. Costs of the organization that are recorded as operating (non-operating) expenses, but under the Regulation on the Composition of Costs are included in the cost price of products (bank services, loan interest, etc.), increase the cost price of sold goods, work, and services, except when such costs, in accordance with current legislation and accounting methodology, are to be attributed to the respective sources of financing.

14. Capital and reserves

14.1. The charter capital is recognized in accounting records as the amount recorded in the organization s foundation documents as the totality of contributions (shares at par value) of the founders (participants) of the organization.

14.2. Duly conducted revaluation increases of the organization s non-current assets are recorded as revaluation surplus.

14.3. Assets received gratuitously, including under a contract of donation, are recorded as deferred income and reflected as a credit to account 98, Deferred Income, in correspondence with account 08, Investments in non-current assets. Depreciation of gratuitously received fixed assets is credited to account 02, Amortization of Fixed Assets, in correspondence with accounts for production expenses and distribution costs. Simultaneously with depreciation, amounts recorded on account 98 in respect of gratuitously received assets are credited to account 91, Other income and expenses, thereby increasing the taxable profit base. In preparation of the Statement of the Procedure for Determining Data Reflected on Line 1, Calculation of Tax on Actual Profits , an adjustment increase in profits for taxation purposes by the amount of accrued depreciation in respect of depreciable property received gratuitously is reflected on line 4.22.

14.4. The organization forms the following reserves:

Provisions for expenses and payments (account 96) for uniform inclusion of costs in the cost price of products. Reservation of the funds is reflected by a credit to account 96, Provisions for Expenses, in correspondence with accounts for production costs and selling costs.

Reserve capital for coverage of losses and other obligations of the organization in respect of its own securities. The reserve capital is formed from net profits remaining at the disposal of the enterprise, by debit to account 84, Undistributed Profit (Uncovered Losses), and credit to account 82, Reserve Capital. Use of the reserve fund is reflected by debit to account 82 and credit to account 84 for reserve capital amounts used to cover losses, and by credit to accounts 66 and 67 for amounts used to redeem bonds of the organization. The reserve fund is created in the amount of 15% of the organization s charter capital by obligatory annual allocations of at least 5% of net profits.

15. Accounting of property insurance settlements

15.1. The organization may incur expenses for voluntary property insurance and medical insurance for its employees.

15.2. These allocations are fully included in the cost price of products, and for taxation purposes are adopted in the amount of 2% of sales volume for property insurance and 1% for medical insurance for its employees.

15.3. Charges for insurance payments are credited to account 76/1, Settlements for Property and Personal Insurance, in correspondence with production expense accounts 20, 26, and 44.

15.4. The aforesaid insurance payments are credited to cash accounts (51, 52, 50) and debited to account 76/1.

15.5. Losses of material assets are credited to accounts 10, 12, 40, etc. and debited to account 76/1.

15.6. Insurance compensation received by the organization from insurers are debited to cash accounts (51, 52, 50, 55) and credited to account 76/1.

15.7. Losses from insurance incidents not compensated by insurance are debited to account 99, Profits and Losses, and credited to account 76/1.

15.8. Analytical records for account 76/1 are maintained by insurer and by individual insurance policies.

16. Accounting of profit (loss), funds, and use of profits

16.1. Profit (loss) represents the final financial results (profit or loss) identified for the reporting period on the basis of accounting of all business operations of the organization and is reflected an account 99, Profits and losses.

The final financial result is formed from the financial outcome of ordinary activities, as well as other income and expenses, including extraordinary income and expenses. A loss (losses and expenses) is reflected as a debit, and a profit (income) as a credit, to account 99.

16.2. At the end of the accounting year, in the preparation of the financial statements, account 99, Profits and Losses, is closed with a final December entry credited (or debited) to account 84, Undistributed Profit (Uncovered Losses) of the Reporting Year.

16.3. Profits or losses identified in the reporting year but relating to operations of past years are included in the financial results of the reporting year.

16.4. Income received in the reporting year but relating to subsequent reporting periods is reflected in accounting records and reports as a separate line in account 98, Deferred

Income. Such income is subsequently assigned to financial results upon the occurrence of accounting period to which it relates.

16.5. Unused profits remaining at the disposal of the enterprise after all expenses have been covered are distributed in accordance with a resolution of the meeting of shareholders.

17. Accounting of exchange-rate adjustments and differences

17.1. Positive and negative adjustments occasioned by changes in the official rate of foreign currencies to the Russian ruble during the reporting year are recorded as non-operating income and expenses on account 91, Other Income and Expenses.

17.2. Exchange-rate differences arising in the reflection of income (revenue) in the same reporting period as the one in which the revenue was reflected are recorded as income.

17.3. When exchange-rate differences arise in a period following that in which the income (revenue) was reflected, they credited to account 91, Other Income and Expenses, as non-operating income.

17.4. When payments are made to suppliers in rubles, in the equivalent of an amount denominated in foreign currency, the amount of the payment and (or) accounts payable and the value of the received materials (rendered services) are reflected taking into account exchange-rate differences.

17.5. When exchange-rate differences arise in a period following that in which the value of received materials (rendered services) was charged and recorded in the cost price of finished products and rendered services, they are debited to account 91, Other Income and Expenses, as non-operating expenses.

18. Appraisal of debt in respect of received loans

18.1. The organization s obligations to banks and other organizations are recognized in accounting records including the interest owing on the obligations. Interest is debited to account 91, with a corresponding credit to borrowed funds (accounts 66, 67). Charged interest amounts are recorded separately. Overdue credits and loans are recorded separately.

19. Changes in accounting policy

19.1. This accounting policy has been developed in 2001 and enters into effect from 2001 for an indefinite period.

19.2. In accordance with article 6.4 of the Law on Accounting, changes in accounting policy may take place in cases of:

reorganization of the enterprise;

replacement of owners of the enterprise;

changes in the regulatory framework or legislation relating to accounting;

development of new methods of maintenance of accounting records (by the Ministry of Finance or by the enterprise itself);

a new substantial change in the conditions of activity of the enterprise.

For the sake of comparability of data, all changes in accounting policy are made from the beginning of a new fiscal year. Exceptions may be made when regulatory acts relating to accounting introduce new rules with retroactive force.

19.3. In the event of a change in the types of activity carried out by the organization, and in cases when the organization acquires new accounting sections, new separate divisions, etc., changes may be made to the accounting policy.

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Deputy Chairman of the Management Board	***M. V. Dubinin***
Chief Accountant	***S. V. Ardentova***

Opinion of Auditing Firm (Auditor) on Financial Statements for 2001

AUDITOR S OPINION ON RELIABILITY OF FINANCIAL STATEMENTS OF OPEN JOINT STOCK COMPANY WIMM-BILL-DANN FOODS AND CONFORMITY OF ACCOUNTING PROCEDURES TO LEGISLATION OF THE RUSSIAN FEDERATION FOR THE YEAR ENDING DECEMBER 31, 2002

1. INTRODUCTION

An audit of the financial statements of OJSC Wimm-Bill-Dann Foods (hereinafter, the Company) for 2001 was conducted by CJSC UNICON/MS Consulting Group pursuant to contract No. 111-15003/2002 of March 15, 2002, on the basis of a resolution of the general meeting of shareholders of the Company to approve CJSC UNICON/MS Consulting Group as the official auditor (minutes of September 7, 2001, No. 2).

Summary information on CJSC UNICON/MS Consulting Group.

CJSC UNICON/MS Consulting Group has been registered by the Moscow Registration Chamber.

Certification of State Registration No. 272.543 of October 5, 1992. Banking details:

Taxpayer Identification Number (INN): 7716021332

Settlement account 40702810938270101484 at Tsaritsino OSB No. 7978 of Sberbank of Russia, Moscow

Correspondent account 30101810400000000225

BIC 044525225

OKONKh code 84400, OKNO code 11450284

Postal address: 11345, Moscow, Varshavskoe shosse, d. 125

Telephone: (095) 319-4656, 319-6636

Tel./fax: (095) 319-5909

E-mail: reception@unicon-ms.ru

Web: http://www.unicon-ms.ru

General director: Andrei Yurievich Dubinsky

CJSC UNICON/MS Consulting Group has the following licenses:

License to practice auditing in the area of a general audits, No. 004196 of February 16, 2000, issued by the RF Ministry of Finance on the basis of Order No. 356 of December 27, 1999, of the RF Ministry of Finance, valid until December 27, 2002;

License to practice auditing in the area of banking audits, No. 006332 of June 18, 1998, issued by the Central Attestation and Licensing Audit Commission of the RF Central Bank on the basis of Decision No. 4 of June 18, 1998, valid until June 18, 2003;

License to practice auditing in the area of audits of insurance organizations and mutual insurance companies (audits of insurers), No. 013793 of April 15, 1998, issued by the Central Attestation and Licensing Audit Commission of the RF Ministry of Finance on the basis of

Decision No. 54 of March 27, 1998, valid until April 15, 2003;

License to practice auditing in the area of audits of exchanges, extrabudgetary funds, and investment institutions, No. 000001 of June 7, 1999, issued by the RF Ministry of Finance on the basis of Order No. 132 of June 7, 1999, valid until June 7, 2002.

The managing director of the department of auditor services, Natalya Vasilievna Kharlamova, is authorized to sign the Auditor s Opinion on the basis of an order issued by the general director of CJSC UNICON/MS Consulting Group, No. 262 of December 27, 2001; a qualification attestation of the RF Ministry of Finance for general audits, No. 025432,

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issued on the basis of a decision of the Central Attestation and Licensing Audit Commission of the RF Ministry of Finance dated March 25, 1999, valid until March 25, 2002 (currently in renewal).

The audit was conducted in one stage: from March 18, 2002, through March 22, 2002.

The following persons participated in the audit:

Vadim Georgievich Kovaleev

director in the auditor services department (the Auditor), qualification attestation No. 023239 of June 30, 1998, issued by the TsALAK [Central Attestation and Licensing Audit Commission] of the Ministry of Finance of Russia, valid until July 30, 2004;

senior manager in the auditor services department, qualification attestation No. 023224 of July 30, 1998, issued by the TsALAK of the Ministry of Finance of Russia, valid until July 30, 2004;

Natalya Yakovlevna Grabovskaya

project manager, qualification attestation No. 040144 of November 28, 2001, issued by the TsALAK of the Ministry of Finance of Russia, without expiration date.

2. RESULTS

OPINION

OF CJSC UNICON/MS CONSULTING GROUP TO SHAREHOLDERS OF OJSC WIMM-BILL-DANN FOODS ON FINANCIAL STATEMENTS OF OJSC WIMM-BILL-DANN FOODS FOR 2001

1. We conducted an audit of the attached financial statements, which were prepared on the basis of results of the Company s activities for 2001;

Balance Sheet (Form No. 1);

Income Statement (Form No. 2);

Cash Flow Report (Form No. 3);

Report on Changes in Capital (Form No. 4);

Annexes to Balance Sheet (Form No. 5);

Explanatory note to annual financial statements.

These reports were prepared by the executive body of the Company in accordance with the norms established by Federal Law No. 129-FZ of November 21, 1996, On Accounting (as amended); the Regulation on Accounting and Reporting in the RF, approved by Order No. 34n of July 29, 1998, of the RF Ministry of Finance; the Accounting Regulation Financial Statements of an Organization (PBU 4/99), approved by Order No. 43n of July 6, 1999, of the RF Ministry of Finance, Order No. 4n of January 13, 2000, On Forms of Financial Statements of Organizations, and other normative acts of the RF regulating the procedure for keeping accounting records and preparing financial statements.

Liability for the preparation of reports is borne by the Company s executive body. Our responsibility is to express an opinion on the reliability of these reports in all material respects on the basis of the conducted audit.

2. We conducted an audit in accordance with Federal Law No. 119-FZ of August 7, 201, On Auditing Activity (as amended). In conducting the audit we also used internal auditing standards and methods.

The audit was planned and performed to obtain reasonable assurance that the financial statements contained no material misstatements. The audit included the selective

examination of evidence supporting the amounts and disclosures contained in the financial statements.

The examination of economic and financial transactions completed by the company for conformity with current legislation was conducted exclusively to obtain reasonable assurance that the financial statements do not contain material misstatements.

We believe that our audit provides a reasonable basis for the opinion that the financial statements are accurate and that the procedure for keeping accounting records conforms to RF legislation.

Our audit of the Company s financial statements for 2001 did not reveal any material errors or defects relating to systems of internal control, accounting, and compliance with current legislation.

In our opinion, the financial statements attached to this opinion are accurate, that is, were prepared in such a way as to ensure the reflection, in all material respects, of the assets and liabilities of the Company as at December 31, 2001, and the financial results of its activities for 2001 on the basis of the requirements of Federal Law No. 129-FZ of November 21, 1996, On Accounting (as amended), the Regulation on Accounting and Reporting in the RF, approved by Order No. 34n of July 29, 1998, of the RF Ministry of Finance, the Accounting Regulation Financial Statements of an Organization (PBU 4/99), approved by Order No. 43 of the RF Ministry of Finance, and other normative enactments of the RF regulating the procedure for keeping accounting records and preparing financial statements.

Enclosures. Financial statements of the Company for 2001 on 19 pages:

Balance sheet (Form No. 1), on 4 pages;

Income statement (Form No. 2), on 2 pages;

Report on changes in capital (Form No. 3), on 2 pages;

Cash flow report (Form No. 4), on 2 pages;

Annex to the balance sheet (Form No. 5), on 6 pages;

Explanatory note to the annual financial statements, on 3 pages.

BALANCE SHEET

		Codes	
	OKUD Form No. 1	0710001	
At **December 31, 2001**	Date (year, month, day)		
Organization: **Open Joint Stock Company Wimm-Bill-Dann Foods** OKPO code		57024227	
Taxpayer Identification Number	INN	7709342399	
Type of activity **Production and sale of dairy and cultured milk products** OKDP		84500	
Organizational and legal form / form of ownership: **private**			
	OKOPF / OKFS	47	34
Unit of measure: **thousand rubles**	OKEI code		

	Line code	**At beginning of reporting period**	**At end of reporting period**
1	**2**	**3**	**4**
ASSET			
I. NON-CIRCULATING ASSETS			
Intangible assets (04, 05)	110		290
patents, licenses, trademarks (service marks), other similar rights and assets	111		290
formation expenses	112		
Goodwill	113		
Fixed assets (01, 02, 03)	120		
land plots and natural resources	121		
buildings, plant, and equipment	122		
Construction in progress (07, 08, 16, 61)	130		1 072
Profitable investments in tangible assets (03)	135		
including: property for leasing	136		
property provided under lease contract	137		
Long-term financial investments (58,59)	140		717 050
including: investments in subsidiaries	141		717050
investments in dependent companies	142		
investments in other organizations	143		
loans to organizations payable in more than 12 months	144		
other long-term financial investments	145		
Other non-circulating assets	150		
TOTAL for Section I	190		718 412
II. CIRCULATING ASSETS			
Inventories	210		43
raw materials, consumables, and other similar assets (10, 12, 13,16)	211		
livestock in breeding and feeding (11)	212		
work in progress costs (distribution costs) (20, 21, 23, 29, 30, 36, 44)	213		42
finished products and goods for resale (16, 40, 41)	214		
shipped goods (45)	215		
deferred expenses (97)	216		1
other reserves and expenses	217		

Value-added tax on acquired assets (19)	220	142
Accounts receivable (payment expected more than 12 months after the reporting date)	230	
buyers and customers (62, 76, 82)	231	
bills of exchange receivable (62)	232	
amounts owed by subsidiaries and dependent companies (78)	233	
advances made (61)	234	
other debtors	235	
Accounts receivable (payment expected within 12 months of the reporting date)	240	4075
buyers and customers (62, 76, 82)	241	855
bills of exchange receivable (62)	242	
amounts owed by subsidiaries and dependent companies (78)	243	
amounts owed by participants (founders) in respect of contributions to charter capital (75)	244	
advances made (61)	245	3218
other debtors	246	2
Short-term financial investments (56, 58, 82)	250	
including: loans to organizations payable in less than 12 months	251	
own shares redeemed from shareholders	252	
other short-term financial investments	253	
Monetary assets	260	463
including: cash (50)	261	2
settlement accounts (51)	262	185
foreign-currency accounts (52)	263	
other monetary assets (55, 56, 57)	264	276
Other circulating assets	270	
TOTAL for Section II	290	4723
BALANCE (sum of lines 190 + 290)	300	723135

	Line code	At beginning of reporting period	At end of reporting period
1	2	3	4
LIABILITIES			
III. CAPITAL AND RESERVES			
Charter capital (85)	410		700000
Additional capital (87)	420		
Reserve capital (86)	430		
statutory reserves	431		
reserves formed in accordance with organizational documents	432		
Social fund (88)	440		
Special-purpose financing and receipts (96)	450		
Retained earnings of previous years (88)	460		
Uncovered losses of previous years (88)	465		
Undistributed profit of the reporting year (88)	470		
Uncovered losses of the reporting year (88)	475		(915)
TOTAL for Section III	490		699085
IV. LONG-TERM LIABILITIES			
Loans and credits (67)	510		
bank credits repayable more than 12 months after the reporting date	511		
loans repayable more than 12 months after the reporting date	512		
Other long-term liabilities	520		
TOTAL for Section IV	590		
V. SHORT-TERM LIABILITIES			
Loans and credits (66)	610		8 414
bank credits repayable within 12 months of the reporting date	611		
loans repayable within 12 months of the reporting date	612		
Accounts payable	620		15636
suppliers and contractors (60, 76)	621		15256
bills of exchange payable (60)	622		
amounts owed to subsidiaries and dependent companies (78)	623		
amounts owed to employees (70)	624		15
amounts owed to state extrabudgetary funds (69)	625		46
amounts owed to the budget (68)	626		352
advances received (62)	627		
other creditors (71,76)	628		13
Income payable to participants (founders) (75)	630		
Deferred income (83)	640		
Provisions for expenses (89)	650		
Other short-term liabilities	660		
TOTAL for Section V	690		24050
BALANCE (sum of lines 490 + 590 + 690)	700		723135

STATEMENT
OF ASSETS ON OFF-BALANCE ACCOUNTS

Item	Line code	At beginning of reporting period	At end of reporting period
1	2	3	4
Rented fixed assets (001)	910		
including leased assets	911		
Valuables in custody (002)	920		
Consigned goods (004)	930		
Bad debts written off as losses (007)	940		
Received security for obligations and payments (008)	950		
Issued security for obligations and payments (009)	960		762856
Depreciation of housing (014)	970		
Depreciation of amenities and similar facilities (015)	980		

STATEMENT OF PROFITS AND LOSSES

		Codes	
	OKUD Form No. 2	0710002	
at **December 31, 2001**	Date (year, month, day)		
Organization **Open Joint Stock Company Wimm-Bill-Dann Foods**	OKPO code	57024227	
Taxpayer Identification Number	INN	7709342399	
Type of activity **Productiond and sale of dairy and cultured milk products**	OKDP	84500	
Organizational and legal form / form of ownership **private**	OKOPF / OKFS	47	34
Unit of measure: **thousand rubles**	OKEI code		

accrual basis

Item	Line code	Reporting period	Same period of preceding year
1	2	3	4
I. Income and expenses for usual activities			
Proceeds (net) from sale of goods, products, work, services (less the VAT, excises, and similar obligatory payments)	010	2198	
including from sale of: finished products	011		
goods	012		
services	013		
other sales	014		
Cost price of goods, products, work, and services sold	020	7	
finished products	021		

goods	022	
services	023	
other sales	024	
Gross profit	029	
Trading costs	030	
Management costs	040	340
Profit (loss) from sales (lines (010 - 020 - 030 - 040)	050	1851
II. Operating income and expenses		
Interest receivable	060	
Interest payable	070	
Income from participation in other organizations	080	
Other operating income	090	
Other operating expenses	100	1444
III. Non-sales income and expenses		
Non-sales income	120	
Non-sales expenses	130	711
Profit (loss) before tax (lines (050 + 060 - 070 + 080 + 090 - 100 + 120 - 130))	140	304
Tax on profit and other similar compulsory payments	150	611
Profit (loss) from usual activities	160	915
IV. Extraordinary income and expenses		
Extraordinary income	170	
Extraordinary expenses	180	
Net profit (undistributed profit (loss) of the reporting period) (lines (160 + 170 - 180))	190	915

INDIVIDUAL INCOME AND EXPENSE ITEMS

Item	Line code	Reporting period		Same period of preceding year	
		profit	loss	profit	loss
1	2	3	4	5	6
Fines, penalties, and charges acknowledged by payer or payable pursuant to the decision of a court (arbitral tribunal)	210				
Accumulated income (loss)	220				
Compensation for losses caused by nonperformance or improper performance of obligations	230				
Exchange-rate differences in foreign-exchange operations	240				
Reduction of cost price of manufacturing inventory by the end of the reporting period	250				
Write-off of receivables and payables upon expiration of limitations period	260				

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Equity Change Statement

		Codes
	OKUD form No. 3	0710003
for the year **2001**	Date (YY, MM, DD)	
Business entity: **Wimm-Bill-Dann Foods OJSC**	OKPO	57024227
Tax payer s ID number	INN	7709342399
Type of business: **production and realization of dairy and sour milk products**	OKDP	84500
Legal status / ownership: **Open Joint Company / joint private and foreign ownership**	OKOPF/OKFS	47/34
Measurement unit: **RUR 000**	OKEI	

Description	**Line Item Code**	**Balance as at the start of the accounting year**	**Received during the accounting year**	**Spent (used) during the accounting year**	**Balance as at the end of the accounting year**
1	**2**	**3**	**4**	**5**	**6**
I. Equity					
Charter (contributed) capital	010				7 000 000
Added capital	020				
Reserve fund	030				
	040				
Retained profits for the accounting year total	050				
Social purposes fund	060				
Target financing and receipts total	070				
	080				
TOTAL of Section I	079				700 000
II. Reserve for future expenditure total	080				
TOTAL of Section II	089				
III. Evaluation reserves total	090				
TOTAL of Section III	099				
IV. Equity change					
Amount of equity as at the start of the accounting period	100	7 000 000			
Equity increase total	110				
including: additional share issue	111				
asset revaluation	112				
additions to property	113				
restructuring of a legal entity (merger, affiliation)	114				
revenues which are directly attributable to equity increase according to accounting rules and procedures	115				
Equity decrease total	120				
including: decrease in share nominal value	121				
decrease in share quantity	122				

restructuring of a legal entity (division, spin-off)	123	
revenues which are directly attributable to equity decrease according to accounting rules and procedures	124	
Amount of equity as at the end of the accounting period	130	7 000 000

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Clarification

Description	Line Item Code	Balance as at the Start of the Accounting Period	Balance as at the End of the Accounting Period
1	2	3	4
1) Net assets	150		698 872

		From the Budget		From Off-budget Funds	
		accounting year	previous year	Accounting year	previous year
		3	4	5	6
2) Received for:					
expenditure on ordinary types of business total	160				
Capital investments in noncurrent assets	170				

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Cash Flow Statement

		Codes
	OKUD form No. 4	0710003
for the year **2001**	Date (YY, MM, DD)	
Business entity: **Wimm-Bill-Dann Foods OJSC**	OKPO	57024227
Tax payer s ID number	INN	7709342399
Type of business: **production and realization of dairy and sour milk products**	OKDP	84500
Legal status / ownership: **Open Joint Company / joint private and foreign ownership**	OKOPF/OKFS	47/34
Measurement unit: **RUR 000**	OKEI	

Description	**Line Item Code**	**Amount**	**Current Activities**	**Including Investing Activities**	**Financing Activities**
1	**2**	**3**	**4**	**5**	**6**
1. Cash balance as at the start of the year	010		x	x	x
2. Total cash receipts total	020	11 895	11 895		
including:					
proceeds from the sale of goods, products, work and services	030	1 776		x	
proceeds from the sale of fixed assets and other property	040				
advances received from buyers (customers)	050			x	
budget allocations and other target financing	060				
on a gratis basis	070				
credits borrowed	080				
loans borrowed	085	9 807	9807		
dividend, interest on financial investments	090		x		
other receipts	110	312	312		
3. Total cash spent total	120	11 432	11 432		
including:					
payment for acquired goods, work, services	130	3 465	3 465		
labour remuneration	140		x	x	x
payments to the state off-budget funds	150		x	x	x
provision of amounts to be accounted for	160				
provision of advances	170	4 091	4 091		
payment for shares in construction	180		x		x
payment for machinery, equipment and transportation facilities	190		x		x
financial investments	200				
payment of dividends, interest on securities	210		x		
payments to the state and other budgets	220	2 118	2 118	x	
payment of interest and principal under borrowed credits, loans	230	1 393	1 393		
other payments, transfers, etc	250	365	365		
4. Cash balance as at the end of the accounting period	260	463	x	x	x
	270	10			

NOTES:

Line item 020 includes cash payments (other than line item 100) total				
including settlement:				
with legal entities	280			
with individuals	290	10		
including application of:				
cash registers	291			
mandatory accounting slips	292	10		
Available funds:				
received from bank to the cash office of the business entity	295			
transferred to bank from the cash office of the business entity	296	8		

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Appendix to Balance Sheet

		Codes
	OKUD form No. 5	0710003
for the year **2001**	Date (YY, MM, DD)	
Business entity: **Wimm-Bill-Dann Foods OJSC**	OKPO	57024227
Tax payer s ID number	INN	7709342399
Type of business: **production and realization of dairy and sour milk products**	OKDP	84500
Legal status / ownership: **Open Joint Company / joint private and foreign ownership**	OKOPF/OKFS	47/34
Measurement unit: **RUR 000**	OKEI	

1. Borrowed Funds Movement

Description	**Line Item Code**	**Balance as at the Start of the Accounting Year**	**Received**	**Repaid**	**Balance as at the End of the Accounting Year**
1	**2**	**3**	**4**	**5**	**6**
Long-term credits	110				
including those unpaid when due	111				
Long-term loans	120				
including those unpaid when due	121				
Short-term credits	130				
including those unpaid when due	131				
Short-term loans	140		9 807	1 393	8414
including those unpaid when due	141				

2. Accounts Receivable and Payable

Description	**Line Item Code**	**Balance as at the Start of the Accounting Year**	**Incurred Liabilities**	**Discharged Liabilities**	**Balance as at the End of the Accounting Year**
1	**2**	**3**	**4**	**5**	**6**
Accounts receivable:					
short-term	210		6766	2691	4075
including those overdue	211				
including those exceeding 3 months	212				

long-term	220				
including those overdue	221				
including those exceeding 3 months	222				
line item 220 includes amounts receivable later than within 12 months after the closing date	223				
Accounts receivable:					
short-term	230		22 257	6 621	15 636
including those overdue	231				
including those exceeding 3 months	232				
long-term	240				
including those overdue	241				
including those exceeding 3 months	242				
line item 240 includes amounts receivable later than within 12 months after the closing date	243				
Suretyships:					
obtained	250				
including those from third parties	251				
provided	260				
including those to third parties	261				

Clarification to Section 2

Description	Line Item Code	Balance as at the Start of the Accounting Year	Incurred Liabilities	Discharged Liabilities	Balance as at the End of the Accounting Year
1	2	3	4	5	6
1) Movement of promissory notes					
Issued promissory notes	262				
including those overdue	263				
Received promissory notes	264				
including those overdue	265				
2) Receivables for supplied products (work, services) at the actual cost value	266				

3) List of major debtor entities

Entity	Line Item Code	Balance as at the End of the Accounting Year total	including those exceeding 3 months
1	2	3	4
1. ZAO Arthur Andersen	270	2 538	
2. OJSC Federal Stock Corporation	271	534	534

4) List of major creditor entities

Entity	Line Item Code	Balance as at the End of the Accounting Year total	including those exceeding 3 months
1	2	3	4
1. OJSC Lianozovo Dairy	280	914	914
2. LLC Experimentalnoye Obiedineniye ISSA	281	562	
3. LLC Vitafruit	282	7 500	4 681

3. Depreciable Assets

Description	Line Item Code	Balance as at the Start of the Accounting	Received (commissioned)	Retired	Balance as at the End of the Accounting Year

		Year			
1	**2**	**3**	**4**	**5**	**6**
I. INTANGIBLE					
Rights to objects of intellectual (industrial) property	310		338	48	290
including those resulting: from copyright and other agreements works of science, literature, art and objects of related rights, to software, data bases, etc.	311				
from patents for inventions, industrial designs, selection achievements, from certificates for utility models, trade and service marks, or from license agreements to use the same	312		338	48	290
from rights to know-how	313				
Rights to use separate natural objects	320				
Disbursements	330				
Goodwill of the entity	340				
Others	349				
Total (sum of line items 310 + 320 + 330 + 340 + 349)	350		338	48	290
II. FIXED ASSETS					
Land plots and nature management objects	360				
Buildings	361				
Structures	362				
Machinery and equipment	363				
Transportation facilities	364				
Business and production implements	365				
Draft cattle	366				
Breeder cattle	367				
Perennial plants	368				
Other types of fixed assets	369				
TOTAL (aggregate of line items 360-369)	370				
including: productive	371				
non-productive	372				
III. PROFITABLE INVESTMENTS IN ITEMS OF VALUE					
Property to be transferred on a lease basis	381				
Property to be provided under a hiring contract	382				
Others	383				
TOTAL (aggregate of line items 381 383)	385				

Clarification to Section 3

Description	Line Item Code	Balance as at the Start of the Accounting Year	Balance as at the End of the Accounting Year
1	2	3	4
Columns 3 and 6 of line item 371 include assets transferred on a lease basis total	387		
including: building	388		
structures	389		
	390		
	391		
transferred to mothballing	392		
Depreciation of depreciable property			
intangible assets	393		48
fixed assets total	394		
including: buildings and structures	395		
machinery, equipment, transportation facilities	396		
others	397		
profitable investment in items of value	398		
NOTES: Results of index-linking in connection with revaluation of fixed assets:			
historical (replacement) cost	401		
depreciation	402		
Pledged property	403		
Value of depreciable property on which no depreciation is accrued total	404		
including: intangible assets	405		
fixed assets	406		

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Description	Line Item Code	Balance as at the Start of the Accounting Year	Accrued (generated)	Applied	Balance as at the End of the Accounting Year
1	2	3	4	5	6
Entity s own funds total	410				
including:					
profit retained by entity	411				
Borrowed funds total	420				
including:					
bank credits	421				
funds borrowed from other entities	422				
shares in construction	423				
from budget	424				
from off-budget funds	425				
others	426				
Total own and borrowed funds (aggregate of line item 410 and 420)	430				
NOTES:					
Construction in progress	440				
Investments in subsidiaries	450				
Investments in subordinate companies	460				

5. Financial Investments

		Long-term		Short-term	
Description	Line Item Code	At the Start of the Accounting Year	At the End of the Accounting Year	At the Start of the Accounting Year	At the End of the Accounting Year
1	2	3	4	5	6
Interest and shares in other entities	510		717 050		
Bonds and other debt liabilities	520				
Loans provided	530				
Others	540				
NOTES: Bonds and other securities at market value	550				

6. Cost of Ordinary Types of Business

Description	Previous Year

1	Line Item Code 2	Accounting Year 3	4
Material expenses	610	7	
Payroll costs	620	102	
Allocations to social needs	630	36	
Depreciation	640		
Other expenses	650	202	
Total by cost fraction	660	347	
Change in balance (increase [+], decrease [-]): work in progress	670		
deferred expenses	680		
reserves for future periods	690		

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7. Social Indicators

Description	Line Item Code	Payable by Estimate	Spent	Transferred to Funds
1	2	3	4	5
Allotments to the state off-budget funds:				
Social Insurance Fund	710	4		4
Pension Fund	720	28		29
Employment Fund	730			
medical insurance	740	4		4
Allotments to non-governmental pension funds	750		x	
Allotments to non-governmental pension funds	750			
Insurance payments under pension voluntary insurance agreements	755			
Average number of employees	760	5		
Cash payments and inducements unrelated to manufacturing of products, performance of work, provision of services	770			
Profits from shares and investments into the entity s property	780			

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ATTACHMENT

Financial Statements
for 2002

None

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ACCOUNTING POLICY

APPROVED

Deputy Chairman of the Management Board

(M. V. Dubinin)

ORDER

No. 2-od of December 29, 2001 Moscow

1. General provisions

1.1. The accounting of OJSC Wimm-Bill-Dann Foods is done in accordance with regulatory documents defining methodological foundations and procedures for the organization and maintenance of accounting records:

the Federal Law On Accounting, No. 129-FZ of November 21, 1996;

the Regulation on Accounting and Reporting in the Russian Federation;

the Chart of Accounts for Financial and Business Activity of Enterprises; accounting regulations;

other regulatory documents, methodological instructions, and materials on accounting issues, as amended.

1.2. Accounting of property, obligations, and business transactions is done on the basis of natural measures in monetary terms by means of their thorough, uninterrupted, documented, and interrelated reflection.

1.3. The objectives of accounting are:

to form complete and accurate information on business processes and results of the enterprise s activity;

to provide control over the presence and movement of property and the use of material, human, and financial resources;

timely warning of negative occurrences in financial and business activity;

identification and mobilization of internal reserves.

1.4. The accounting policy of the enterprise has been developed on the basis of the following requirements of accounting records:

completeness,

reliability,

timeliness,

prudence,

priority of substance over form,

no contradiction, and

rationality,

and also on the basis of the following assumptions:

the assumption of autonomy of assets,

the assumption of the definitive placement of facts of business activity in terms of time;

the assumption of consistency of accounting policy.

1.5. Liability for organization of accounting is borne by the director of the enterprise.

1.6. The chief accountant of the enterprise ensures control of all business transactions and their reflection in the accounts, and the submission of operative and resultative information within the established times according to the document flow plan (attachment 1).

1.7. The chief accountant of the enterprise, jointly with the director of the enterprise, signs documents serving as the basis for acceptance of materials assets, cash amounts, and payment, lending, and financial instruments.

1.8. The chief accountant of the enterprise does not have the right to accept for performance and execution documents in respect of transactions that are contrary to legislation or in violation of contract and financial discipline (job descriptions of employees of the accounting department, attachment).

1.9. Intraplant reports are prepared, formalized, and presented in accordance with internal regulations, directives, and orders relating to the plant.

2. Organizational and technical section

2.1. Accounting in the enterprise is carried out by the accounting department as an independent structural unit headed by the chief accountant. The employees of the accounting department are guided in their activity by the Regulation on the Accounting Department and the job descriptions of employees of the accounting department.

2.2. The enterprise compiles external and internal financial statements as the final stage of accounting. External financial statements include:

1) balance sheet;

2) income statement;

3) attachments to the balance sheet;

4) auditor s opinion confirming the reliability of financial statements;

5) explanatory notes.

The composition of internal reports and their forms, frequency, and periods of preparation and provision, and the list of persons responsible for preparing internal reports and list of potential users are approved by the Regulation on Internal Accounting.

3. Selected accounting methods

3.1. Accounting at the plant is conducted in the ledger-and-order form of double-entry accounting according to the chart of accounts.

3.2. Accounting in the enterprise is done on the basis of source accounting documents. Unified forms approved by the State Statistics Committee (Goskomstat) are used as source accounting documents in the enterprise. Also used in the enterprise are source accounting forms containing obligatory information, developed within the enterprise and approved by corresponding regulations.

The basis for entries in the accounting ledgers is source documents, which must be prepared at the time the business transaction is executed or immediately after the end of the transaction and contain obligatory information:

the name of the document (form);

the form code;

the date of preparation;

the name of the organization in whose name the document is prepared;

the substance of the business transaction;

measures of the business transaction (in real and monetary terms);

names of the officers responsible for performance of the business transaction and its proper formalization;

personal signatures and transcriptions of their names.

3.3. Information contained in source documents accepted for recording and required for reflection in accounting records is accumulated and systematized in accounting ledgers developed and recommended by the Ministry of Finance of the Russian Federation and the agencies authorized by Federal Laws to regulate accounting.

Information on business transactions conducted over a certain period of time are transferred from the accounting ledgers in grouped form to the financial statements.

3.4. Unstipulated adjustments to source documents and accounting ledgers are not permitted. Error adjustments must be confirmed by the signature of the persons who signed the document, accompanied by indication of the date of the adjustment. Adjustments to cash and banking documents are not permitted.

3.5. Source documents, accounting ledgers, and financial statements are subject to compulsory storage in accordance with the established procedure and periods. Responsibility for ensuring the safekeeping of these documents during work with them and for their timely transfer into archives is borne by the chief accountant.

4. Appraisal of property, obligations, and business transactions

4.1. Property, obligations, and business operations are subject to appraisal for the purpose of their reflection in accounting records and reports. Appraisals are made in monetary terms by summation of actually incurred expenses.

Other forms of appraisal are used in the cases established by Russian Federation legislation, regulatory acts on accounting, and this Regulation [sic], or other regulatory acts of the Russian Federation.

4.2. The plant makes appraisals of property, obligations, and business transactions in the currency in use in the territory of the Russian Federation, i.e., in rubles.

4.3. Entries in accounting records relating to foreign-currency denominated accounts of the plant, as well as its transactions in foreign currency, are made in the currency in use in the Russian Federation, in amounts determined by conversion of the foreign currency at the rate of the Central Bank of the Russian Federation in effect on the date of performance of the transaction. Simultaneously these entries are made in the currency of settlements and payments.

4.4. Penalties, fines, and forfeitures for breach of contract are recognized in accounting records in the same period in which they are acknowledged by the debtor or awarded by a court decision.

5. Inventorying

5.1. For purposes of ensuring the reliability of accounting data and reports in the enterprise, inventorying of property and obligations is conducted, in the course of which their existence, condition, and appraisal are verified and documentarily confirmed. Inventorying is conducted in accordance with RF Ministry of Finance Order No. 49 of June 13, 1995, On Approval of Methodological Instructions for Inventorying of Property and Financial Obligations.

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5.2. The number of times inventorying is to be conducted during a reporting year, the dates of each, and the list of property and obligations to be verified in each instance are established by the plant, except in cases when inventorying is obligatory:

when property of the enterprise is leased, redeemed, or sold;

prior to the preparation of annual financial statements, with the exception of property inventoried no earlier than October 1 of the reporting year. Fixed assets are inventoried once every three years; library resources are inventoried once every five years.

in case of replacement of materially liable persons (at the day of transfer of files);

in case of establishment of facts of embezzlement and abuse, or establishment of deterioration of inventory;

in case of fire or acts of God;

in case of possible liquidation of the enterprise, prior to the preparation of a liquidation balance sheet;

in other cases provided by legislation of the Russian Federation.

The results of inventorying are formalized in a protocol signed by the members of the committee and approved by the director of the plant.

5.3. If discrepancies between actual presence of property and accounting data are identified in the course of inventorying, they are regulated in the following manner: a surplus of fixed assets, tangible assets, cash amounts, and other property are received and entered to the financial results of the plant s business activity for the month in which inventorying ended.

5.4 Shrinkage of inventory within statutory limits is written off accordingly to production (distribution) costs pursuant to a directive issued by the director of the plant.

5.5. Shortages of tangible assets, cash amounts, and other property, including deterioration exceeding standard rates for natural shrinkage, are attributed to the persons responsible. In cases when the persons responsible are not established or a court declines to order recovery from them, losses from shortages and deterioration are written off to financial results

5.6. Surpluses and shortages resulting from resorting may be mutually offset only, by way of exception, when made in the same period being verified, attributed to the same person being verified, in relation to inventory assets of the same kind and in identical quantities, and pursuant to a directive issued by the director of the enterprise.

6. Rules for appraisal of accounting items. Investments into non-current assets

6.1. Included in capital investments are expenses for construction and assembly work, acquisition of equipment, tools, and implements, and other capital work and costs. Capital investments are reflected in the balance sheet according to actual costs.

6.2. Works of capital construction in a state of temporary operation are not included in fixed assets until transferred into permanent operation. Costs relating to these items are reflected in accounting records and reports as capital investments in progress.

7. Financial investments

7.1. Financial investments are investments of the organization into state securities (bonds and other debt instruments), securities, contributions into the charter capital of other organizations, and loans to other organizations in the Russian Federation and elsewhere. All financial investments are recorded on separate subaccounts of account 58.

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8. Fixed assets

8.1. Fixed assets are the portion of property used as means of labor in the production of products (work, services) for an extended period of time, i.e., having a useful life longer than 12 months, or longer than the ordinary operating cycle if it exceeds 12 months.

8.2. Fixed assets include buildings, constructions, machinery and equipment, measuring and regulating devices and instruments, computer hardware, vehicles, tools, production and business implements and supplies, and other corresponding items.

Land and natural resources (water, subsoil, and other natural resources) owned by the plant and capital investments into leased fixed assets are accounted as fixed assets.

8.3. Fixed assets are accounted in the enterprise in accordance with PBU 6/01, Accounting of Fixed Assets, approved by RF Ministry of Finance Order No. 26n of March 30, 2001 (as amended), the Methodological Instructions on Accounting of Fixed Assets approved by RF Ministry of Finance Order No. 33n of July 20, 1998 (as amended), and other regulatory acts.

Fixed assets are accepted for the purpose of accounting at their initial value, i.e., the amount of actual expenses for their acquisition, construction, and production, not including the value-added tax and other applicable taxes (except in the cases provided by the legislation of the Russian Federation). Actual expenses for acquisition, construction, and production of fixed assets are:

1. amounts payable to the supplier (seller) in accordance with a contract;

2. amounts payable to organizations for completion of work under construction subcontract agreements and other contracts;

3. amounts payable to organizations for informational and consulting services associated with the acquisition of fixed assets;

4. registration fees, government duties, and other similar payments made in connection with the acquisition (obtainment) of rights to a fixed asset item;

5. customs duties;

6. unrecoverable taxes paid in connection with the acquisition of a fixed asset item;

7. fees payable to an intermediary organization through which a fixed asset item was purchased;

8. other expenses directly associated with the acquisition, construction, and production of a fixed asset item in particular, interest on borrowed funds that accrued prior to the acceptance of a fixed asset item for accounting, if the funds are borrowed for the purpose of acquiring, constructing, or producing the item.

8.4. Actual expenses for acquisition and construction of fixed asset items are determined taking into account exchange-rate differences that arise before the assets are accepted for accounting to account 01 (put into operation), in cases of payment in rubles in the equivalent of amounts denominated in a foreign currency (conventional monetary units). Exchange-rate differences that arise after fixed assets are accepted accounting to 01 (put into operation) are reflected as non-operating expenses (income) on account 91, Other Income and Expenses.

8.5. The initial value of fixed assets paid into the plant s charter capital is measured as their cash value as approved by the organization s founders (participants), unless otherwise provided by current legislation of the Russian Federation.

8.6. The initial value of fixed assets acquired in exchange for property other than cash is determined with reference to the value usually assigned to similar goods (assets) by the plant in comparable circumstances.

8.7. The value at which fixed assets were accepted for the purpose of accounting is not subject to change except in the cases established by legislation of the Russian Federation.

A change in the initial value of fixed assets is permitted in cases of additions, betterments, reconstruction, and partial liquidation of fixed asset items.

8.8. Revaluation of fixed assets is done in accordance with current legislation of the Russian Federation no more than once a year.

An increase in the carrying amount of a fixed asset item as a result of revaluation is debited to account 01, Fixed Assets, and credited to account 83, Revaluation Surplus. A revaluation increase equal to decreases made in preceding reporting periods and debited to account 91, Organization s Expenses, as a non-sales expense is credited to account 91, Organization s Income, as non-operating income.

A revaluation decrease in the carrying amount of a fixed asset item is assigned to the other income and expenses account (acct. 91).

A revaluation decrease in the carrying amount of a fixed asset item is charged against the revaluation surplus formed from revaluation increases of the same item made in preceding reporting periods. The excess of a revaluation decrease over the revaluation increase credited to the revaluation surplus in previous periods is recognized as a non-sales expense in the other income and expenses account (acct. 91).

When a fixed asset item is disposed of, the amount of its revaluation increase is transferred from the organization s revaluation surplus as non-operating income to the other income and expenses account (acct. 91).

8.9. The value of the organization s fixed assets is recovered through depreciation. Deprecation rates are calculated on the basis of the maximum useful life of fixed assets as defined in the classification of fixed assets. The classification of fixed assets including in depreciation groups was approved by Russian Federation Government Decree No. 1 of January 1, 2002, On the Classification of Fixed Assets to be Included in Depreciation Groups.

The straight-line method of depreciation is used at the plant.

8.10. Wear and tear (depreciation) with respect to production-related fixed assets is reflected in the accounting records by a credit to account 02 in correspondence with expense accounts for production and distribution costs, and with respect to fixed assets leased out under a current lease and non-production-related fixed assets, to the sources of financing.

8.11. Fixed asset items with a unit value of 2,000 rubles or less are charged as production costs (cost of sales) by means of 100% depreciation as they issued to production or operation (debit to accounts 24, 44, and 91, for non-production-related fixed assets, credit to account 02). Books, booklets, and other similar publications are charged as production costs (selling costs) as they are issued to production or operation.

8.12. Previously used fixed assets are depreciated on the basis of their actual time of use and expected useful life. The expected useful life is calculated as the difference between the useful life calculated for new items and the period of actual use.

In accordance with current legislation, the following items are not depreciated:

fixed asset items whose consumer attributes do not change over time (housing facilities (houses, hostels, apartments, etc.));

assets laid up in accordance with the established procedure;

land improvements;

road facilities;

perennial plants that have not reached production age;

land and natural resources.

8.13. The recognition of depreciation charges for a fixed assets item may not be suspended during its useful life unless by decision of the director of the plant it is either laid up for a

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period of more than three months or transferred into restoration period lasting more than 12 months.

After the end of reconstruction, re-equipment, or modernization, the corresponding costs may increase the initial value of the item if its initial performance is improved by the modernization; in the month following the month in which an increase in value took place, depreciation proceeds on the basis of the restored value of the item, but without an increase in the initially established depreciation period.

8.14. For the purpose of accounting for disposal of fixed assets (sale, write-off, partial liquidation, etc.), a subaccount, Disposal of Fixed Assets, is provided under account 01, Fixed Assets. The value of a disposed fixed asset item is debited to this subaccount, while accumulated depreciation is credited to account 02, Amortization of Fixed Assets. The residual value of a disposed fixed asset is charged as a credit against account 01 and debited to account 91, Other Income and Expenses.

8.15. Costs for all types of repairs (current, medium-term, and capital) of fixed production assets are included in the cost price of products according to the respective cost components without formation of a repair fund.

9. Intangible assets

9.1. Intangible assets are accounted in accordance with Accounting Regulation PBU 14/2000, approved by RF Ministry of Finance Order No. 91n of October 16, 2000.

Assets meeting the following criteria are deemed intangible:

lack of a material (physical) structure,

possibility of identification (isolation, separation) of the asset from other property,

use in the production of products, in the performance [of work], or the rendering of services, or for administrative needs of the organization,

long-term use (i.e., with a useful life exceeding 12 months),

ability to bring future economic benefits (income) to the organization;

availability of properly executed documents that confirm the existence of the asset itself and the organization s exclusive right to the results of intellectual activity (patents, certificates, other documents of title, etc.).

The following works of intellectual property (exclusive right to the results of intellectual activity) are deemed intangible assets:

a patenter s exclusive right to an invention, industrial design, or model;

exclusive copyright in computer programs and databases;

an owner s exclusive right in a trademark;

property right of an author or other right holder in an integrated circuit topography;

goodwill of the organization;

start-up costs (expenses associated with the formation of a legal entity, recognized in accordance with the foundation documents as a part of the contribution of participants to the charter (reserve) capital).

9.2. Intangible assets are reflected in accounting records and reports in the amount of the actual expenses for acquisition, creation, and production, as well as expenses for preparing them for their intended use.

The initial value of intangible assets received as a contribution to the charter capital is based on a cash value agreed upon by the founders (participants) of the organization, unless otherwise provided by law.

The carrying amount of intangible assets is not subject to change from the initially recorded value, except in the cases established by RF legislation.

9.3. Intangible assets are initially recognized in accounting records as a debit to account 04 in correspondence with account 08.

9.4. Intangible assets are amortized at the plant by the straight-line method, on the basis of the initial value of the assets and amortization rates calculated on the basis of the useful life of the item.

9.5. The useful life of intangible assets is determined by the organization at the time the item is initially recognized in accounting records. If the useful life an intangible asset cannot be determined, amortization rates are based on a twenty-year amortization period (but the amortization period cannot exceed the period of activity of the plant).

9.6. Amortization charges on intangible assets are recognized as credits to account 05 in correspondence with production expense accounts. Amortization charges on intangible assets not used during the reporting period are credited to account 05 in correspondence with account 97.

9.7. When intangible assets are derecognized, their value recorded in account 04, Intangible Assets, is reduced by the amount of accumulated amortization (with a debit to account 05, Amortization of Intangible Assets). The residual value is credited to account 04 and debited to account 91, Other Income and Expenses.

10. Acquisition, preparation, and recording of inventories and their writedown.

10.1. Production inventories are accounted on the basis of Accounting Regulation PBU 5/01, Accounting of Inventories, approved by RF Ministry of Finance Order No. 44n of June 09, 2001.

Inventories include:

raw materials and consumables used in production, intended for sale, and used for administrative needs;

finished products (for accounting of release of finished products see section 13);

goods.

10.2. Production inventories and goods are reflected in accounting records and reports at actual cost price.

10.3. Actual cost price is determined on the basis of costs for their acquisition:

1) amounts payable to the supplier in accordance with a contract, excluding the value-added tax;

2) amounts payable to organizations for informational and consulting

3) [sic] services associated with the acquisition of inventories;

2) customs duties;

3) expenses related to procurement and transportation of inventories to the place of use thereof, including insurance costs;

4) fees payable to an intermediary organization through which production inventories were purchased;

5) unrecoverable taxes paid in connection with acquisition of production inventories;

6) other costs directly associated with acquisition.

10.4. Actual costs for acquisition of materials are determined taking into account exchange-rate differences arising before inventories are accepted for accounting, in cases of payment in rubles of amounts denominated in foreign currency (conventional monetary units). Exchange-rate differences that arise after inventories are accepted for accounting are reflected as non-operating expenses (income) on account 91, Other Income and Expenses.

10.5. The cost price of production inventories and goods also includes costs for acquisition of packaging. If the cost of packaging accepted from suppliers with production inventories

is included in their price, then, if necessary, the cost of packaging will be excluded from total expenses at its price of possible use.

10.6. The actual cost price of inventories received under contracts provided for performance of obligations (payment) in money is deemed to be the value of the assets transferred or to be transferred by the plant. The value of assets transferred or to be transferred by the plant is determined on the basis of the price at which the plant determines the value of similar assets. If this value cannot be established, the value of received inventories is determined based on the price of acquiring similar materials.

10.7. The actual cost price at which inventories are accepted for accounting is not subject to change, except in the cases established by legislation of the Russian Federation.

10.8 When material resources are charged off to production or otherwise disposed of, their actual cost price is determined according to the average cost price per unit of each type.

10.9. When materials are disposed of (sale, write-off, gratuitous assignment, etc.), their value is debited to account 91, Other Income and Expenses, and credited to account 10, Materials.

11. Accounting of production costs, distribution of expenses, and calculation of cost price

11.1. For the purpose of accounting for the plant s production costs relating to ordinary activities, the chart of accounts provides accounts 20 and 26.

11.2. Accounting records of costs for production of products and services are maintained pursuant to the prescribed method.

11.3. Direct costs of the plant are accumulated during the month in account 20, Primary Production, according to cost components.

11.4. General (administrative) expenses are accumulated in account 26, Administrative Expenses.

11.5. General (administrative) expenses are distributed among types of activity in proportion to revenue from sale of products (work, services) received from the different types of activity.

General (administrative) expenses are charged to sold products (debited to account 90) at the end of the reporting period. The basis for distribution of these expenses to individual types of activity is the gross income from sales excluding taxes, calculated from the prices of sale.

For trade activity, gross revenue is defined as the difference between received income and the cost of the goods sold.

12. Production in progress and deferred expenses.

12.1. Products (work) that have not passed through all stages contemplated by the manufacturing process, as well as products that have not undergone quality control, are categorized as production in progress.

12.2. Production in progress is reflected on the balance sheet in the amount of direct costs.

12.3. Expenses incurred in a reporting period but relating to subsequent reporting periods are reflected in reports on a separate line-item as deferred expenses and are assigned to production and distribution costs (or to corresponding sources of the plant s funds) in the period to which they related.

Recorded as deferred expenses are licenses to engage in certain types of activity that are discharged during the period of validity of the license.

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14. Other operating income and expenses

14.1. Other income and expenses of the organization are accepted for accounting in accordance with accounting regulations PBU 9/99 and PBU 10/99 and reflected on account 91, Other Income and Expenses.

15. Capital and reserves

15.1. The charter capital is recognized in accounting records as the amount recorded in the organization s foundation documents as the totality of contributions (interests, shares at par value, share contributions) of the founders (participants) of the organization.

15.2. Duly conducted revaluation increases of the plant s non-current assets are recorded as revaluation surplus.

15.3. Assets received gratuitously, including under a contract of donation, are recorded as deferred income and reflected as a credit to account 98, Deferred Income, in correspondence with account 08, Investments in non-current assets. Depreciation of gratuitously received fixed assets is credited to account 02, Amortization of Fixed Assets, in correspondence with accounts for production expenses and distribution costs. Simultaneously with depreciation, amounts recorded on account 98 in respect of gratuitously received assets are credited to account 91, Other income and expenses, thereby increasing the taxable profit base.

15.4. The plant may create the following reserves:

Provisions for doubtful debts (account 63). An entry for the amount of the created reserve is made as a debit to account 91, Other Income and Expenses, and a credit to account 63, Provisions for Doubtful Debts. The merger of unused amounts of the reserves for doubtful debts with profits of the reporting period following the period in which they were created is reflected by a debit to account 63 and a credit to account 91.

Provisions for devaluation of investments in securities (account 59). In case of an increase in the market value of securities for which the corresponding reserves were created earlier, a debit entry is made to account 59, Provisions for Devaluation of Investments in Securities, and a credit entry is made to account 91, Other Income and Expenses.

Provisions for devaluation of tangible assets (account 14). Formation of a reserve against devaluation of material assets is reflected as a debit to account 14, Provisions for Devaluation of Tangible Assets, and a credit to account 91, Other Income and Expenses. The reserved amount is restored at the beginning of the period following the period in which the entry was made, by a debit to account 14 and a credit to account 91.

Provisions for expenses and payments (account 96) for uniform inclusion of costs in the cost price of products. Reservation of the funds is reflected by a credit to account 96, Provisions for Expenses, in correspondence with accounts for production costs and selling costs.

Reserve capital for coverage of losses and other obligations of the organization in respect of its own securities. The reserve capital is formed from net profits remaining at the disposal of the enterprise, by debit to account 84, Undistributed Profit (Uncovered Losses), and credit to account 82, Reserve Capital. Use of the reserve fund is reflected by debit to account 82 and credit to account 84 for reserve capital amounts used to cover losses, and by credit to accounts 66 and 67 for amounts used to redeem bonds of the organization.

17. Accounting of profit (loss), funds, and use of profits

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17.1. Profit (loss) represents the final financial results (profit or loss) identified for the reporting period on the basis of accounting of all business operations of the plant and is reflected an account 99, Profits and losses.

The final financial result is formed from the financial outcome of ordinary activities, as well as other income and expenses, including extraordinary income and expenses. A loss (losses and expenses) is reflected as a debit, and a profit (income) as a credit, to account 99.

17.2. At the end of the accounting year, in the preparation of the financial statements, account 99, Profits and Losses, is closed with a final December entry credited (or debited) to account 84, Undistributed Profit (Uncovered Losses) of the Reporting Year.

17.3. Profits or losses identified in the reporting year but relating to operations of past years are included in the financial results of the reporting year.

17.4. Income received in the reporting year but relating to subsequent reporting periods is reflected in accounting records and reports as a separate line in account 98, Deferred Income. Such income is subsequently assigned to financial results upon the occurrence of accounting period to which it relates.

17.5. Profits remaining at the disposal of the enterprise are distributed in accordance with a resolution of the meeting of shareholders.

18. Accounting of exchange-rate adjustments and differences

18.1. Positive and negative adjustments occasioned by changes in the official rate of foreign currencies to the Russian ruble during the reporting year are recorded as non-operating income and expenses on account 91, Other Income and Expenses.

18.2. Exchange-rate differences arising in the reflection of income (revenue) in the same reporting period as the one in which the revenue was reflected are recorded as income.

18.3. When exchange-rate differences arise in a period following that in which the income (revenue) was reflected, they credited to account 91, Other Income and Expenses, as non-operating income.

18.4. Exchange-rate differences arising in conjunction with the purchase of services in the same reporting period in which the services were purchased are included in the cost of the services.

18.5. When exchange-rate differences arise in a period following that in which receipt of the services was reflected, they are debited to account 91, Other Income and Expenses, as non-operating expenses.

19. Appraisal of debt in respect of received loans

19.1. Debt in respect of received loans (other than interest-free and state loans) is accounted at the plant in accordance with Accounting Regulation PBU 15/01, Accounting of Loans and Credits and Costs of Their Maintenance, approved by RF Ministry of Finance Order No. 60n of August 2, 2001.

19.2. The plant s obligations to banks and other organizations are recognized in accounting records including the interest charged on the obligations. Interest is reflected in accounting records in accordance with PBU 15/01. Charged interest amounts and overdue credits and loans are recorded separately.

20. Changes in accounting policy

20.1. This accounting policy has been developed in 2001 and enters into effect from 2002 for an indefinite period.

20.2. In accordance with article 6.4 of the Law on Accounting, changes in accounting policy may take place in cases of:

reorganization of the enterprise;

replacement of owners of the enterprise;

changes in the regulatory framework or legislation relating to accounting;

development of new methods of maintenance of accounting records (by the Ministry of Finance or by the enterprise itself);

a new substantial change in the conditions of activity of the enterprise.

For the sake of comparability of data, all changes in accounting policy are made from the beginning of a new fiscal year. Exceptions may be made when regulatory acts relating to accounting introduce new rules with retroactive force.

20.3. In the event of a change in the types of activity carried out by the enterprise, and in cases when the enterprise acquires new accounting sections, new separate divisions, etc., changes may be made to the accounting policy.

Deputy Chairman of the Management Board	***M. V. Dubinin***
Chief Accountant	***S. V. Ardentova***

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BALANCE SHEET

		Codes
	OKUD Form No. 1	0710001
at **January 01, 2003**	Date (year, month, day)	
Organization: **Open Joint Stock Company Wimm-Bill-Dann Foods**		57024227
Taxpayer Identification Number	INN	7709342399
Type of activity **Production and sale of dairy and cultured milk products**	OKDP	84500
Organizational and legal form / form of ownership: **private**		
	OKOPF / OKFS	47 34
Unit of measure: **thousand rubles**	OKEI code	

	Line code	At beginning of reporting period	At end of reporting period
1	2	3	4
ASSET			
I. NON-CIRCULATING ASSETS			
Intangible assets (04, 05)	110	290	975
patents, licenses, trademarks (service marks), other similar rights and assets	111	290	975
formation expenses	112		
Goodwill	113		
Fixed assets (01, 02, 03)	120		
land plots and natural resources	121		
buildings, plant, and equipment	122		
Construction in progress (07, 08, 16, 61)	130	1072	4 240
Profitable investments in tangible assets (03)	135		
including: property for leasing	136		
property provided under lease contract	137		
Long-term financial investments (58,59)	140	717 050	2 069 571
including: investments in subsidiaries	141	717050	2 069 571
investments in dependent companies	142		
investments in other organizations	143		
loans to organizations payable in more than 12 months	144		
other long-term financial investments	145		
Other non-circulating assets	150		
TOTAL for Section I	190	718 412	2 074 786
II. CIRCULATING ASSETS			
Inventories	210	42	9495
raw materials, consumables, and other similar assets (10, 12, 13,16)	211		
livestock in breeding and feeding (11)	212		
work in progress costs (distribution costs) (20, 21, 23, 29, 30, 36, 44)	213	42	
finished products and goods for resale (16, 40, 41)	214		
shipped goods (45)	215		
deferred expenses (97)	216	1	9495
other reserves and expenses	217		
Value-added tax on acquired assets (19)	220	142	2349
Accounts receivable (payment expected more than 12 months after the reporting date)	230		

buyers and customers (62, 76, 82)	231		
bills of exchange receivable (62)	232		
amounts owed by subsidiaries and dependent companies (78)	233		
advances made (61)	234		
other debtors	235		
Accounts receivable (payment expected within 12 months of the reporting date)	240	4081	369604
buyers and customers (62, 76, 82)	241	855	5 434
bills of exchange receivable (62)	242		
amounts owed by subsidiaries and dependent companies (78)	243		
amounts owed by participants (founders) in respect of contributions to charter capital (75)	244		
advances made (61)	245	3218	350 735
other debtors	246	7	13435
Short-term financial investments (56, 58, 82)	250		3160126
including: loans to organizations payable in less than 12 months	251		3160126
own shares redeemed from shareholders	252		
other short-term financial investments	253		
Monetary assets	260	463	483722
including: cash (50)	261	2	5
settlement accounts (51)	262	185	9503
foreign-currency accounts (52)	263		154 211
other monetary assets (55, 56, 57)	264	276	320 003
Other circulating assets	270		
TOTAL for Section II	290	4 728	4 025 296
BALANCE (sum of lines 190 + 290)	300	723 140	6 100 082

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1	Line code 2	At beginning of reporting period 3	At end of reporting period 4
LIABILITIES			
III. CAPITAL AND RESERVES			
Charter capital (85)	410	700 000	880 000
Additional capital (87)	420		4 958 622
Reserve capital (86)	430		
statutory reserves	431		
reserves formed in accordance with organizational documents	432		
Social fund (88)	440		
Special-purpose financing and receipts (96)	450		
Retained earnings of previous years (88)	460		
Uncovered losses of previous years (88)	465	(915)	(915)
Undistributed profit of the reporting year (88)	470		
Uncovered losses of the reporting year (88)	475		(915)
TOTAL for Section III	490	699 085	6 090 134
IV. LONG-TERM LIABILITIES			
Loans and credits (67)	510		
bank credits repayable more than 12 months after the reporting date	511		
loans repayable more than 12 months after the reporting date	512		
Other long-term liabilities	520		
TOTAL for Section IV	590		
V. SHORT-TERM LIABILITIES			
Loans and credits (66)	610	8 414	8 414
bank credits repayable within 12 months of the reporting date	611		
loans repayable within 12 months of the reporting date	612	8 414	
Accounts payable	620	15 642	9 948
suppliers and contractors (60, 76)	621	563	9 708
bills of exchange payable (60)	622		
amounts owed to subsidiaries and dependent companies (78)	623		
amounts owed to employees (70)	624	15	32
amounts owed to state extrabudgetary funds (69)	625		
amounts owed to the budget (68)	626	352	202
advances received (62)	627		
other creditors (71,76)	628	14712	6
Income payable to participants (founders) (75)	630		
Deferred income (83)	640		
Provisions for expenses (89)	650		
Other short-term liabilities	660		
TOTAL for Section V	690	24056	9948
BALANCE (sum of lines 490 + 590 + 690)	700	723 141	6 100 082

STATEMENT
OF ASSETS ON OFF-BALANCE ACCOUNTS

Item	Line code	At beginning of reporting period	At end of reporting period
1	2	3	4
Rented fixed assets (001)	910		
including leased assets	911		
Valuables in custody (002)	920		
Consigned goods (004)	930		
Bad debts written off as losses (007)	940		
Received security for obligations and payments (008)	950		
Issued security for obligations and payments (009)	960	762 856	1 320 743
Depreciation of housing (014)	970		
Depreciation of amenities and similar facilities (015)	980		

STATEMENT OF PROFITS AND LOSSES

		Codes
	OKUD Form No. 2	0710002
at **January 01, 2003**	Date (year, month, day)	
Organization **Open Joint Stock Company Wimm-Bill-Dann Foods**	OKPO code	57024227
Taxpayer Identification Number	INN	7709342399
Type of activity **Production and sale of dairy and cultured milk products**	OKDP	84500
Organizational and legal form / form of ownership **private**	OKOPF / OKFS	47 34
Unit of measure: **thousand rubles**	OKEI code	

accrual basis

Item	Line code	Reporting period	Same period of preceding year
1	2	3	4
I. Income and expenses for usual activities			
Proceeds (net) from sale of goods, products, work, services (less the VAT, excises, and similar obligatory payments)	010	5310	2198
including from sale of: finished products	011		
goods	012		
services	013		
other sales	014		
Cost price of goods, products, work, and services sold	020	22	7
finished products	021		
goods	022		
services	023		
other sales	024		
Gross profit	029	5288	2191
Trading costs	030		

Management costs	040	68 650	340-
Profit (loss) from sales (lines (010 - 020 - 030 - 040)	050	63361	1851-
II. Operating income and expenses			
Interest receivable	060	282 386	
Interest payable	070		
Income from participation in other organizations	080		
Other operating income	090	814243	
Other operating expenses	100	810917	1444
III. Non-sales income and expenses			
Non-sales income	120	157148	
Non-sales expenses	130	33665	711
Profit (loss) before tax (lines (050 + 060 - 070 + 080 + 090 - 100 + 120 - 130))	140	345834	304
Tax on profit and other similar compulsory payments	150	93407	611
Profit (loss) from usual activities	160	252427	915
IV. Extraordinary income and expenses			
Extraordinary income	170		
Extraordinary expenses	180		
Net profit (undistributed profit (loss) of the reporting period) (lines (160 + 170 - 180))	190	252427	915

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INDIVIDUAL INCOME AND EXPENSE ITEMS

Item	Line code	Reporting period		Same period of preceding year	
		profit	loss	profit	Loss
1	2	3	4	5	6
Fines, penalties, and charges acknowledged by payer or payable pursuant to the decision of a court (arbitral tribunal)	210				
Accumulated income (loss)	220		75		
Compensation for losses caused by nonperformance or improper performance of obligations	230				
Exchange-rate differences in foreign-exchange operations	240	110731	10774		
Reduction of cost price of manufacturing inventory by the end of the reporting period	250				
Write-off of receivables and payables upon expiration of limitations period	260				

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Equity Change Statement

		Codes
	OKUD form No. 3	0710003
for the year **2002**	Date (YY, MM, DD)	
Business entity: **Wimm-Bill-Dann Foods OJSC**	OKPO	57024227
Tax payer s ID number	INN	7709342399
Type of business: **production and realization of dairy and sour milk products**	OKDP	84500
Legal status / ownership: **Open Joint Company / joint private and foreign ownership**	OKOPF/OKFS	47/34
Measurement unit: **RUR 000**	OKEI	

Description	**Line Item Code**	**Balance as at the start of the accounting year**	**Received during the accounting year**	**Spent (used) during the accounting year**	**Balance as at the end of the accounting year**
1	**2**	**3**	**4**	**5**	**6**
I. Equity					
Charter (contributed) capital	010	700 000	180 000		880 000
Added capital	020		4 958 622		4 958 622
Reserve fund	030				
	040				
Retained profits for the accounting year total	050	(915)	252 427		251 512
Social purposes fund	060				
Target financing and receipts total	070				
	080				
TOTAL of Section I	079	699 085	5 391 049		6 090 134
II. Reserve for future expenditure total	080				
TOTAL of Section II	089				
III. Evaluation reserves total	090				
TOTAL of Section III	099				
IV. Equity change					
Amount of equity as at the start of the accounting period	100	699 085	700 000		
Equity increase total	110	5 138 622			
including: additional share issue	111				
asset revaluation	112				
additions to property	113				
restructuring of a legal entity (merger, affiliation)	114				
revenues which are directly attributable to equity increase according to accounting rules and procedures	115	252 427	(915)		
Equity decrease total	120				
including: decrease in share nominal value	121				
decrease in share quantity	122				
restructuring of a legal entity (division, spin-off)	123				
revenues which are directly attributable to equity decrease according to accounting rules and procedures	124				
	130	6 090 134	699 085		

Amount of equity as at the end of the accounting period

Clarification

Description	Line Item Code	Balance as at the Start of the Accounting Period	Balance as at the End of the Accounting Period
1	2	3	4
1) Net assets	150		698 872

		From the Budget		From Off-budget Funds	
		accounting year	previous year	accounting year	previous year
		3	4	5	6
2) Received for:					
expenditure on ordinary types of business total	160				
Capital investments in noncurrent assets	170				

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Cash Flow Statement

		Codes
	OKUD form No. 4	0710003
for the year **2002**	Date (YY, MM, DD)	
Business entity: **Wimm-Bill-Dann Foods OJSC**	OKPO	57024227
Tax payer s ID number	INN	7709342399
Type of business: **production and realization of dairy and sour milk products**	OKDP	84500
Legal status / ownership: **Open Joint Company / joint private and foreign ownership**	OKOPF/OKFS	47/34
Measurement unit: **RUR 000**	OKEI	

Description	**Line Item Code**	**Amount**		**Including**	
			Current Activities	**Investing Activities**	**Financing Activities**
1	**2**	**3**	**4**	**5**	**6**
1. Cash balance as at the start of the year	010	463	x	x	x
2. Total cash receipts total	020	7 761 156	5 375 373	106 442	2 279 341
including:					
proceeds from the sale of goods, products, work and services	030	1 655	1 655	x	
proceeds from the sale of fixed assets and other property	040	6 301			6 301
advances received from buyers (customers)	050	138	138	x	
budget allocations and other target financing	060				
on a gratis basis	070				
credits borrowed	080				
loans borrowed	085	120 592	14 150	106 442	
dividend, interest on financial investments	090	249 317	x		249 317
other receipts	110	7 383 153	5 359 430		2 023 723
3. Total cash spent total	120	7 277 897	358 310	2 581 712	4 337 875
including:					
payment for acquired goods, work, services	130	48 184	48 184		
labour remuneration	140	9 590	x	x	x
payments to the state off-budget funds	150	1 291	x	x	x
provision of amounts to be accounted for	160	97	97		
provision of advances	170	1 671 674	48 633	1 623 041	
payment for shares in construction	180		x		x
payment for machinery, equipment and transportation facilities	190		x		x
financial investments	200	5 146 649		808 774	4 337 875
payment of dividends, interest on securities	210		x		
payments to the state and other budgets	220	106 577	106 577	x	
payment of interest and principal under borrowed credits, loans	230	129 057	129 057		
other payments, transfers, etc	250	164 778	14 881	149 897	
4. Cash balance as at the end of the accounting period	260	483 722	x	x	x
NOTES: Line item 020 includes cash payments (other than line item 100) total	270				

including settlement:		
with legal entities	280	
with individuals	290	
including application of:		
cash registers	291	
mandatory accounting slips	292	
Available funds:		
received from bank to the cash office of the business entity	295	2 436
transferred to bank from the cash office of the business entity	296	2

Appendix to Balance Sheet

			Codes
		OKUD form No. 5	0710003
for the year **2002**		Date (YY, MM, DD)	
Business entity: **Wimm-Bill-Dann Foods OJSC**		OKPO	57024227
Tax payer s ID number		INN	7709342399
Type of business: **production and realization of dairy and sour milk products**		OKDP	84500
Legal status / ownership: **Open Joint Company / joint private and foreign ownership**		OKOPF/OKFS	47/34
Measurement unit: **RUR 000**		OKEI	

1. Borrowed Funds Movement

Description	**Line Item Code**	**Balance as at the Start of the Accounting Year**	**Received**	**Repaid**	**Balance as at the End of the Accounting Year**
1	**2**	**3**	**4**	**5**	**6**
Long-term credits	110				
including those unpaid when due	111				
Long-term loans	120				
including those unpaid when due	121				
Short-term credits	130				
including those unpaid when due	131				
Short-term loans	140	8 414	120 643	129 057	
including those unpaid when due	141				

2. Accounts Receivable and Payable

Description	**Line Item Code**	**Balance as at the Start of the Accounting Year**	**Incurred Liabilities**	**Discharged Liabilities**	**Balance as at the End of the Accounting Year**
1	**2**	**3**	**4**	**5**	**6**
Accounts receivable:					
short-term	210	4 081	15 032 883	14 667 360	369 604
including those overdue	211				
including those exceeding 3 months	212				
long-term	220				
including those overdue	221				
including those exceeding 3 months	222				
line item 220 includes amounts receivable later than within 12 months after the closing date	223				
Accounts receivable:					
short-term	230	15 642	9 523 182	9 528 876	9 948
including those overdue	231				
including those exceeding 3 months	232				
long-term	240				

including those overdue	241				
including those exceeding 3 months	242				
line item 240 includes amounts receivable later than within 12 months after the closing date	243				
Suretyships:					
obtained	250		327 852	327 852	
including those from third parties	251				
provided	260	762 856	835 424	277 538	1 320 743
including those to third parties	261				

Clarification to Section 2

Description	Line Item Code	Balance as at the Start of the Accounting Year	Incurred Liabilities	Discharged Liabilities	Balance as at the End of the Accounting Year
1	2	3	4	5	6
1) Movement of promissory notes					
Issued promissory notes	262				
including those overdue	263				
Received promissory notes	264		796 448	796 448	
including those overdue	265				
2) Receivables for supplied products (work, services) at the actual cost value	266	2	22	6	18

3) List of major debtor entities

Entity	Line Item Code	Balance as at the End of the Accounting Year	
		total	including those exceeding 3 months
1	2	3	4
1. OJSC Dairy Plant , Timashevsk	270	341 636	
2. OJSC Alfa Bank	271	3 927	3 927
3. LLC Informatsionnye Bizness Systemy	272	2 068	
4. LLC F.B.K. - Consulting	273	1 144	
5. American Appraisals (AAP)	274	859	

4) List of major creditor entities

Entity	Line Item Code	Balance as at the End of the Accounting Year	
		total	including those exceeding 3 months
1	2	3	4
1. LLC Investitsionnyi Consulting XXI	280	7 949	
2. LLC Experimentalnoye Obiedineniye ISSA	281	1 029	1 029
3. Pricewaterhousrcoopers	282	695	
	283		

3. Depreciable Assets

Description	Line Item Code	Balance as at the Start of the Accounting Year	Received (commissioned)	Retired	Balance as at the End of the Accounting Year
1	2	3	4	5	6
I. INTANGIBLE					
Rights to objects of intellectual (industrial) property	310	338	807		1 145
including those resulting: from copyright and other agreements works of science, literature, art and objects of related rights, to software, data bases, etc.	311				
from patents for inventions, industrial designs, selection achievements, from	312	338	807		1 145
certificates for utility models, trade and service marks, or from license agreements to use the same					
from rights to know-how	313				
Rights to use separate natural objects	320				
Disbursements	330				
Goodwill of the entity	340				
Others	349				
Total (sum of line items 310 + 320 + 330 + 340 + 349)	350	338	807		1 145
II. FIXED ASSETS					
Land plots and nature management objects	360				
Buildings	361				
Structures	362				
Machinery and equipment	363				
Transportation facilities	364				
Business and production implements	365				
Draft cattle	366				
Breeder cattle	367				
Perennial plants	368				
Other types of fixed assets	369				
TOTAL (aggregate of line items 360 369)	370				
including: productive	371				
non-productive	372				
III. PROFITABLE INVESTMENTS IN ITEMS OF VALUE					
Property to be transferred on a lease basis	381				
Property to be provided under a hiring contract	382				
Others	383				
TOTAL (aggregate of line items 381 383)	385				

Clarification to Section 3

Description	Line Item Code	Balance as at the Start of the Accounting Year	Balance as at the End of the Accounting Year
1	2	3	4
Columns 3 and 6 of line item 371 include assets transferred on a lease basis total	387		
including: building	388		
structures	389		
	390		
	391		
transferred to mothballing	392		
Depreciation of depreciable property			
intangible assets	393	48	170
fixed assets total	394		
including: buildings and structures	395		
machinery, equipment, transportation facilities	396		
others	397		
profitable investment in items of value	398		

NOTES:
Results of index-linking in connection

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with revaluation of fixed assets:		
historical (replacement) cost	401	
depreciation	402	
Pledged property	403	
Value of depreciable property on which no depreciation is accrued total	404	
including: intangible assets	405	
fixed assets	406	

4

Description	Line Item Code	Balance as at the Start of the Accounting Year	Accrued (generated)	Applied	Balance as at the End of the Accounting Year
1	2	3	4	5	6
Entity s own funds total	410				
including:					
profit retained by entity	411				
Borrowed funds total	420				
including:					
bank credits	421				
funds borrowed from other entities	422				
shares in construction	423				
from budget	424				
from off-budget funds	425				
others	426				
Total own and borrowed funds (aggregate of line item 410 and 420)	430				
NOTES:					
Construction in progress	440				
Investments in subsidiaries	450				
Investments in subordinate companies	460				

5. 5. Financial Investments

Description	Line Item Code	Long-term		Short-term	
		At the Start of the Accounting Year	At the End of the Accounting Year	At the Start of the Accounting Year	At the End of the Accounting Year
1	2	3	4	5	6
Interest and shares in other entities	510	717 050	2 069 571		

Bonds and other debt liabilities	520		
Loans provided	530		3 160 126
Others	540		
NOTES: Bonds and other securities at market value	550		

6. Cost of Ordinary Types of Business

Description	Line Item Code	Accounting Year	Previous Year
1	**2**	**3**	**4**
Material expenses	610	7	
Payroll costs	620	10 966	102
Allocations to social needs	630	1 212	36
Depreciation	640	22	
Other expenses	650	56 472	202
Total by cost fraction	660	68 672	347
Change in balance (increase [+], decrease [-]): work in progress	670		
deferred expenses	680		
reserves for future periods	690		

7. Social Indicators

Description	Line Item Code	Payable by Estimate	Spent	Transferred to Funds
1	2	3	4	5
Allotments to the state off-budget funds:				
Social Insurance Fund	710	119		120
Pension Fund	720	964		1 041
Employment Fund	730			
medical insurance	740	107		107
Allotments to non-governmental pension funds	750		x	
Allotments to non-governmental pension funds	750			
Insurance payments under pension voluntary insurance agreements	755			
Average number of employees	760	5		
Cash payments and inducements unrelated to manufacturing of products, performance of work, provision of services	770			
Profits from shares and investments into the entity s property	780			

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WIMM-BILL-DANN FOODS OJSC

EXPLANATORY NOTE

to the Balance Sheet for 2002

February 17, 2003

I. General Information

Open Joint Stock Company Wimm-Bill-Dann Foods (hereinafter the Company) is registered at: Office 306, block 16/15, Yauzsky boulevard, Moscow 109028, Russian Federation. The Company was registered by the State Registration Chamber at the Ministry of Justice of the Russian Federation (Certificate of Registration No. P-15968.15 of May 31, 2001).

The Company s Registrar is OAO Central Moscow Depositary (legal address: building B, block 3, Orlikov per., Moscow; Taxpayer s Identification No. 7708047457).

As of December 31, 2002, the Company had 34 employees (as compared to 5 employees as of December 31, 2001).

Members of the Company s Board of Directors (approved by Minutes No. 31-05 of the annual general shareholders meeting dated May 31, 2002):

1). ***David Yakobashvili - Chairman of the Board of Directors.***

2). ***Guy de Selliers***

3). ***Mikhail Vladimirovich Dubinin***

4). ***Michael O Neill***

5). ***Alexander Sergeevich Orlov***

6). ***Sergei Arkadievich Plastinin***

7). ***Victor Alexandrovich Tutelyan***

8). ***Vladimir Nikolaevich Sherbak***

9). ***Evgeny Grigorievich Yasin***

10). ***E. Linwood Tipton***

11). ***J. B. Mark Mobius***

Members of the Company s Management Board :

1). ***Sergei Arkadievich Plastinin - Chairman***

2). ***Maxim Olegovich Byrdin***

3). Dmitri Sergeevich Kolokatov

4). Leonid Andreevich Kompaniets

5). Dmitri Victorovich Kupriyanov

6). VladimirVladimirovich Preobrazhensky

7). Pavel Andreevich Smirnov

Members of the Audit Commission ***(approved by Minutes No. 31-05 of the annual general shareholders meeting dated May 31, 2002):***

1). Natalia Alexandrovna Vasilieva

Position in the joint-stock Company: None

Positions in other organizations:

Organization	Position
Lianozovo Dairy Plant OJSC	*Deputy Director of Internal Controls Department*

2). Elena Vasilievna Gorshechnikova

Position in the joint-stock Company: None

Positions in other organizations:

Organization	Position
Tsaritsino Dairy Plant OJSC	*Deputy Director of Internal Controls Department*

3). Elena Borisovna Kuznetsova

Position in the joint-stock Company: None

Positions in other organizations:

Organization	Position
Tsaritsino Dairy Plant OJSC	*Director of Internal Controls Department*

4). Natalia Nikolaevna Kolesnikova

Position in the joint-stock Company: None

Positions in other organizations:

Organization	Position
Tsaritsino Dairy Plant OJSC	*Financial and business analyst, Internal Controls Department*

5). Natalia Victorovna Romanova

Position in the joint-stock Company: None

Positions in other organizations:

Organization	Position
Tsaritsino Dairy Plant OJSC	*Financial and business analyst, Internal Controls Department*

6). Elena Vladimirovna Smirnova

Position in the joint-stock Company: None

Positions in other organizations:

Organization	Position
Lianozovo Dairy Plant OJSC	*Deputy Director of Internal Controls Department*

According to Minutes No. 31-05 of the general shareholders meeting of May 31, 2002, ZAO UNICON/MS Consulting Group was appointed as the Company s auditor (legal address: 125 Varshavskoye shosse, Moscow; Taxpayer s ID Number: 7716021332; License of the RF Ministry of Finance No. 004196).

II. Accounting Policy

This balance sheet is prepared on the basis of the accounting policy described below.

1. Principles of Preparation

This balance sheet is made on the basis of accounting and reporting regulations adopted in the Russian Federation, in particular, the Federal Law On Accounting and the Regulation On Accounting and Reporting in the Russian Federation approved by the Ministry of Finance of the Russian Federation.

Assets and liabilities are valued on the basis of the actual expenses.

2. Assets and Liabilities Expressed in Foreign Currencies

The accounting of foreign currency transactions was based on the official exchange rate existing on the date of a particular transaction. Monetary funds held in foreign currency bank accounts and in the cash office, short-term financial investments and funds used in foreign currency settlements are reflected as amounts calculated in accordance with the official exchange rates existing as of December 31, 2002. The currency exchange rates as of that date was 31.7844 ruble per U.S. dollar (as of December 31, 2001 30.14 rubles per U.S. dollar) and 33.1098 rubles per Euro (as of December 31, 2001 26.49 rubles).

Exchange rate differences resulting from foreign currency transactions with assets and liabilities during the financial year, as well as from their translation (re-measurement) as of the reporting date, are reflected in item 91 of the Balance Sheet Other Revenues and Expenses .

3. Current and Non-current Assets and Liabilities

Financial investments, accounts receivable and payable, including debts on credits and loans, are attributed to short-term (current) liabilities if their payback (repayment) period does not exceed 12 months from the reporting date. The remaining assets and liabilities are reflected as non-current assets and liabilities.

4. Intangible Assets

Intangible assets include exclusive rights to intellectual property items acquired or created by the Company (the exclusive right to the results of intellectual activity).

Intangible assets are included in the actual expenses associated with their acquisition, creation and manufacture, and expenses associated with their bringing to a condition suitable for their intended use.

Amortization of intangible assets is calculated by a linear method according to the initial value of intangible assets and amortization quotas based on the period of useful life of specific projects.

Intangible assets are reflected according to their initial value, less amortization which accrued during the entire period of their utilization.

5. Equity Investments

Equity investments are reflected according to the actual acquisition costs.

6. Deferred Expenses

Expenses which were incurred by the Company during the financial year but which are related to the next accounting periods are shown as deferred expenses. These expenses are written off uniformly over the periods to which they relate.

The Deferred Expenses item includes expenses associated with the acquisition of interests (shares) in charter capitals. However, the Company has not yet acquired the title to such interests (shares).

7. Trade Accounts Receivable

Trade accounts receivable is based on prices fixed by agreements between the Company and buyers (customers).

8. Charter, Additional and Reserve Capital

Charter capital is included in the nominal value of the common shares acquired by shareholders.

Additional capital of the Company includes proceeds from the sale of the Company s shares at the price exceeding their nominal value.

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9. Recognition of Proceeds

Proceeds from the sales of products (work, services) is determined for tax purposes in the course of the goods shipments and against presentation by the buyer of payment documents prepared in accordance with the calculation method established by the accounting report.

10. Changes in Accounting Policy

No significant changes were made in the Company s accounting policy during the accounting period.

11. Preliminary and Comparative Data

Changes were made in the initial data of the Company s balance sheet. Amounts reflected in item 621 Suppliers and Contractors were reduced by 14,692,000 rubles and were included in item 628 Other Creditors .

III. Disclosure of Material Information

1. Charter Capital

In 2002, the charter capital of the Company increased by 180,000,000 rubles as a result of placement of 9,000,000 additional registered common shares with a nominal value of 20 rubles each.

As of December 31, 2002, the Company s charter capital was fully paid up and consisted of:

	Total number of shares	**Nominal value of shares**	**Size of the charter capital, thousand rubles**
Common shares	***44,000,000***	***20.0***	***880,000***
Preferred shares			
Total:	***44,000,000***	***20.0***	***880,000***

Proceeds from additional placement of shares amounted to 4,958,622,000 rubles. The amount of proceeds is included in additional capital.

2. Financial Investments

Long-term investments in subsidiaries. Information about significant financial investments is given in Article 3 of Section III Disclosure of Material Information.

Short-term loans granted to legal entities. The amounts of such loans are disclosed in the section Affiliates hereof.

3. Monetary Funds

Item 264 Other Monetary Funds of the balance sheet reflects monetary funds placed in deposit accounts.

Information about placement periods is given in the table below:

Equity investments are reflected according to the actual acquisition costs.

Amount of deposit, in thousands US dollars	Deposit repayment date
5,000	*February 27, 2003*
5,000	*January 24, 2003*

4. Major Subsidiaries and Dependent Companies

Name of the company	Location	Type of activity	Amount of financial investments, in thousands US dollars
Lianozovo Dairy Plant OJSC (82.66%)	*Moscow*	*Production of dairy products*	*378,757*
Tsaritsino Dairy Plant OJSC (28.74%)	*Moscow*	*Production of dairy products*	*239,786*
Production and Analytical Group Rodnik CJSC (100%)	*Moscow*	*Production of dairy and sour milk products*	*346,108*
Wimm-Bill-Dann Trading Company CJSC (83.19%)	*Moscow*	*Wholesale and retail trade in foods*	*240,206*
Children s Dairy Products Plant OJSC (25.10%)	*Moscow*	*Production of children s dairy products*	*157,416*
Roska OJSC (100%)	*St. Petersburg*	*Production of dairy products*	*367,262*
Kharkov Dairy Plant OJSC (75.08%)	*Ukraine, Kharkov*	*Production of dairy products*	*153,104*
Anninskoye Moloko LLC (78.56%)	*Anna, Voronezh Region, Russia*	*Production of dairy products*	*70,015*
Tuymazinsk Dairy Plant OJSC (85%)	*Tuymazy*	*Production of dairy products*	*47,444*
Wimm-Bill-Dann Mineral Water LLC (100%)	*Moscow*	*Production and bottling of mineral water*	*10*
Gulkevichy Creamery CJSC (52.24%)	*Krasnodar district, Gulkevichy*	*Production of dairy products*	*9,266*
Darya CJSC (98.84%)	*Ukraine, Kharkov*	*Discontinued operations*	*4,762*
Burynsk Dry Milk Plant OJSC (76%)	*Ukraine, Sumskaya Region, Buryn*	*Production of dairy products*	*54,825*

5. Profit per Share

Basic profit per share reflects such portion of proceeds in the accounting period which can be potentially distributed among common shareholders. It is calculated as a ratio of the

basic profit generated during the financial year and the average weighted number of common shares which remain outstanding during the financial year.

The basic profit is equal to the net profits generated during the financial year (item 190 of the Profit and Loss Account).

	2002
Basic profit for the financial year, in thousands rubles	*252,427*
Average weighted number of common shares which remain outstanding during the financial year	*42,500,000*
BASIC PROFIT PER SHARE, IN THOUSANDS RUBLES	*0.0059*

The Company has no dilutive potential common shares, and, therefore, the amount of the basic profit per share is equal to the amount of diluted profit.

The Company s net assets as of the end of the accounting period amounted to 6,087,784,000 rubles.

The Company s net (retained) profit in the accounting period amounted to 252,427,000 rubles.

In 2002, no emergencies were reported, and, therefore, no disclosure was made regarding the basic profit under emergencies.

6. Affiliates

The list of affiliates is given in the Annex hereto.

Sales of products to the Company s affiliates

During the financial year, the Company granted trademarks for use to its affiliates under license agreements.

Assignment of rights to the trademarks in favor of the Company did not entail any changes in the terms of the license agreements with third parties.

The amount of remuneration was 5,310,000 rubles and is equal to the amount of the Company s proceeds from its general operations.

Settlements with affiliates

Accounts receivable (item 245 Advances Paid) includes indebtedness of Timashevsk Dairy Plant OJSC in the amount of 341,636,000 rubles under the agreement for the purchase of shares of Timashevsk Dairy Plant OJSC.

Loans granted to affiliates

Significant amounts of the loans granted by the Company to its affiliates are given in the Table below:

Company name	Amount of indebtedness as of December 31, 2002, in thousand rubles
Lianozovo Dairy Plant OJSC	*1,128,504*
Wimm-Bill-Dann Trading Company CJSC	*408,120*
Tsaritsino Dairy Plant OJSC	*370,410*
Ramenski Dairy Plant OJSC	*323,929*
Siberian Milk OJSC	*307,209*
Children s Dairy Products Plant OJSC	*190,910*
Fruit Rivers LLC	*121,704*
Nizhny Novgorod Dairy Plant OJSC	*109,532*
Rubtsovo Dairy Plant CJSC	*60,949*

Loans to affiliates are granted on commercial basis at an interest rate of 10% per annum. In 2002, interest on the loans amounted to 192,723 million rubles. Loans are to be repaid in 2003.

Remuneration to members of the Company s management bodies

In 2002, the Company paid remuneration to members of the Board of Directors and the Management Board (salaries, bonuses, allowances and other benefits) for the total amount of approximately 8,309,000 rubles. The list of members of the Board of Directors and the Management Board is given in the section General Information of this Explanatory Note.

7. Information on Segments

The main operating income of the Company during the accounting period was resulted from the use of industrial facilities and trademarks under license agreements.

As of the beginning of the accounting period, the Company owned 21 intellectual property items (trademarks).

During the accounting period, the Company acquired 58 intangible assets (trademarks).

As of the end of the accounting period, the Company owned 79 intangible assets (trademarks).

8. Events Occurred After the Reporting Date

On January 31, 2003, the general shareholders meeting of the Company adopted a resolution to increase the charter capital through the private placement of 1,350 additional registered common shares with a nominal value of 20 rubles each in favor of WBD ESOP, Limited.

On December 11, 2002, the Company s Board of Directors decided to place 1,500,000 documentary non-convertible interest-bearing bearer bonds, subject to mandatory centralized storage, with a nominal value of 1,000 rubles each for the total amount of 1,500,000,000 rubles through public offering.

9. Contingent Liabilities

As of December 31, 2002, the Company provided a surety in favor of third parties for the total amount of 1,320,743,000 rubles (in 2001 762,856,000 rubles). The Company s management does not expect that any material liabilities may arise in connection therewith.

V.V. Preobrazhensky

Chief Financial Director

of Wimm-Bill-Dann Foods OJSC

E.E. Laryushkina

Chief Accountant

of Wimm-Bill-Dann Foods OJSC

Other information on the financial statements for 2002 financial year.

None

AUDITOR S OPINION

to the shareholders of
Wimm-Bill-Dann Foods
on the financial statements of
Wimm-Bill-Dann Foods
Open Joint Stock Company
for the year 2002

An audit of the financial statements of Wimm-Bill-Dann Foods was performed by BDO YuniconRuf ZAO, the legal successor of UNICON/MS Consulting Group ZAO (certificate of state registration of amendments to legal entity s foundation documents series 77 No 006869528, dated February 27, 2003), in accordance with contract No 111-13150/2002 of March 15, 2002, made with UNICON/MS Consulting Group ZAO on the basis of a resolution of the Company s General Meeting of Shareholders confirming UNICON/MS Consulting Group as the official auditor (minutes No 31-05 of May 31, 2002).

Brief information on BDO UniconRuf

BDO UniconRuf is registered with Inspectorate No 26 of the RF Ministry of Taxes and Levies for the Southern Administrative District of Moscow.

Certificate of entry into the Unified State Register of Legal Entities dated February 27, 2003, series 77, No 006869528, primary state registration number 1037739271701.

Postal address: 117545, Moscow, Varshavskoe shosse, d. 125.

Telephone: (095) 319-4656, 319-6636

Tel./fax: (095) 319-5909

E-Mail: reception@unicon-ms.ru

Web: www.bdo.ru

General Director: Andrei Yurievich Dubinsky

BDO UniconRuf holds auditing license No E 000547, dated June 25, 2002, issued by the RF Ministry of Finance, valid until June 24, 2007.

BDO UniconRuf is an independent national auditing and consulting company in the BDO international network, with exclusive rights to render services to clients under the BDO trademark in Russia.

BDO UniconRuf is a full member of the Institute of Professional Auditors of Russia (IPAR), a professional audit association accredited with the RF Ministry of Finance in accordance with Order No 145 of July 16, 2002.

The managing director of the department of audit services, Ms. Nataliya Vasilievna Kharlamova, is authorized to sign the Auditor s Opinion on the basis of Order No 030 of the general director of BDO UniconRuf, dated March 3, 2003.

The audit was led by auditor Mr. Vadim Nikolaevich Goncharov, director in the audit services department.

Brief information on Wimm-Bill-Dann Foods.

Wimm-Bill-Dann Foods Open Joint Stock Company was registered by the Moscow Registration Chamber on June 8, 2001, certificate of registration No 002.042.956.

Postal address: 109028, Moscow, Yauzsky bulvar, d. 16/15, room 306.

The Company has no branches.

In 2002 the Company engaged in the following activities:

primary activity: use of industrial property and trademarks by granting licenses;

performing information searches for industrial property;

performing information searches for designations proposed as trademarks;

preparing applications for industrial property (inventions, utility models, industrial designs) and trademarks, and filing such applications with the patent office;

maintaining industrial property patents.

1. ***We audited the accompanying financial statements for 2002, consisting of 42 pages:***

Balance Sheet (Form No 1), on 4 pages;

Income Statement (Form No 2), on 2 pages;

Statement of Changes in Capital (Form No 3), on 2 pages;

Statement of Cash Flows (Form No 4), on 1 page;

Appendix to the Balance Sheet (Form No 5), on 4 pages;

Explanatory Note, on 29 pages

The above financial statements were prepared by the Company s management in accordance with norms established by the Federal Law On Accounting (No 129-FZ of November 21, 1996, as amended); the Regulation on Accounting and Reporting in the RF, approved by Order No 34n of July 29, 1998, of the RF Ministry of Finance; the Accounting Regulation Financial Statements of an Organization (PBU/499), approved

by Order No 43n of July 6, 1999, of the RF Ministry of Finance; and other normative acts of the Russian Federation regulating accounting procedures and the preparation of financial statements.

Liability for the preparation, condition, and reliability of accounting records and the timely presentation of financial statements is borne by the Chairman of the Company s Management Board, Mr. Sergei Akradievich Plastinin.

Liability for the formation of accounting policy, keeping of accounting records, and timely and complete presentation of financial statements that fairly present the Company s financial condition is borne by the Company s chief accountant, Ms. Ekaterina Evgenieva Laryushkina.

It is the auditor s duty to express on opinion as to whether the financial statements are fairly presented in all material respects and whether procedures for keeping accounting records are consistent with RF legislation. It was not our task to express an opinion on whether the Company s activities are fully consistent with RF legislation or to evaluate the effective conduct of business by management or compliance with the interests of shareholders.

Our opinion should not be taken as an assurance of the continuity of the Company s operations in future.

2. ***The audit was conducted in accordance with the Federal Law On Auditing (No 119-FZ of August 7, 2001), federal auditing rules (standards) approved by RF Government Decree No 696 of August 23, 2002, other normative acts regulating auditing activities, and the Company s internal auditing standards and methods.***

In performing the audit we were guided by the internal rules of the Institute of Professional Auditors (IPAR), an accredited professional audit association.

The audit was planned and performed so as to obtain reasonable assurance that the financial statements are free from material misstatements.

The audit included the examination, on a test basis, of documents supporting the amounts and explanations specified in the financial statements. Our work also consisted in ascertaining that the Company used proper accounting principles and methods and rules for preparing financial statements. We examined approaches to the determination of main accounting estimates and assumptions made by the Company s executive body in preparing the financial statements.

We believe that the performed audit provides a reasonable basis for our opinion as to whether the financial statements are fairly presented in all material respects and whether procedures for keeping accounting records are consistent with RF legislation.

3. In our opinion, the Company s financial statements fairly presented in all material respects the Company s financial condition at December 31, 2002, and the results of its financial and business activities in the period from January 1 through December 31, 2002, inclusive.

4. Without qualifying our opinion, we draw attention to the information presented on page 8 of the Explanatory Note, concerning the adoption of a resolution to place certificated interest-bearing nonconvertible bearer bonds with a total value of 1,500,000,000 rubles. The maturity of the bonds is 1,092 (one thousand ninety-two) days after the placement start date.

March 26, 2003

Managing Director
Department of Audit Services ***N. V. Kharlamova***

RF Ministry of Finance Certificate of Qualification in General Audit No. 025432, issued on the basis of a decision of the Central Certification and Licensing Audit Commission (TsALAK) under the RF Ministry of Finance dated March 25, 1999, extended from March 28, 2002, for an unlimited duration (minutes No. 104 of the TsALAK under the Russian Ministry of Finance).

Auditor ***V. N. Goncharov***

RF Ministry of Finance Certificate of Qualification in General Audit No. 023239, issued on the basis of a decision of the Central Certification and Licensing Audit Commission of the RF Ministry of Finance dated July 30, 1998, extended until July 30, 2004.

Total pages: 47, bound.

ATTACHMENT

Financial Statements
for the I quarter of 2003

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ACCOUNTING POLICY

ACCOUNTING POLICY

I APPROVE
Chief Financial Officer
WBDF OJSC
/V.V. Preobrazhensky/

ORDER

No. 05 A dt. 04 January 2003 Moscow

Accounting Policy for the Purpose of 2003 Accounting (draft)

This Accounting Policy shall take effect as from January 2003

1. General Provisions

1.1. Accounting at Wimm-Bill-Dann Foods OJSC shall be performed in accordance with the following applicable regulations governing the methodological fundamentals of accounting as well as the accounting organization and implementation procedures:

The Federal Law dt. 21.11.96 No. 129-FZ On Accounting ,

Regulations of Accounting and Reporting in the Russian Federation dt. 29.07.1998 No. 34n,

The Standard Corporate Chart of Accounts approved by Order of the Ministry of Finance dt. 31.10.2000 No. 94n, applicable Accounting Regulations,

other regulations and methodological recommendations and accounting-related materials, as subsequently amended.

1.2 Accounting of property, liabilities and business operations shall be on the basis of physical measures in monetary terms by way of their total, continuous, documentary and interrelated recognition.

1.3. The following shall be the objectives of the corporate accounting system:

to create complete and reliable information on the company s business processes and results of operations;

to establish control over property status and movements, over the utilization of the corporate assets, labor and financial resources;

to prevent, in a timely manner, any adverse developments in the business and financial operations;

to identify and mobilize any internal reserves.

1.4. The corporate accounting policy has been developed on the basis of the following requirements to corporate accounts:

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completeness,

reliability,

timeliness,

prudence,

priority of content over form,

consistency,

rationality.

And further, on the basis of the following assumptions:

the economic entity assumption,

the accrual principle assumption,

the accounting continuity assumption.

1.5. The chief executive officer of the company is responsible for the organization of corporate accounting.

1.6. The chief accountant of the company shall assure that all business operations are recognized in the books of account and shall exercise control over their compliance with the RF legislation.

1.7. The chief accountant of the company shall sign jointly with the chief executive officer of the company all documents that serve as the basis for the acceptance of inventories, cash, settlement, credit and financial liabilities.

1.8. The chief accountant of the company shall not receive for implementation and execution any documents evidencing transactions that are inconsistent with the law or constitute breaches of contractual/financial discipline (or job descriptions of the accounting personnel).

1.9. Internal statements shall be prepared, executed and delivered in accordance with the internal regulations and corporate orders.

1.10. The following shall be the company s ordinary types of business:

to make trademarks available to others on the basis of license arrangements;

to provide comprehensive management services;

to provide consulting services;

to operate under assignments in the IT area;

other businesses implying the earning of income pursuant to Accounting Regulations No. 9/99.

2. Organizational and Technical Matters

2.1.Corporate accounts shall be maintained by the Accounting Department, a separate department within the company, headed by the chief accountant. All operations of the accounting personnel shall be subject to the Accounting Department Regulations and the job descriptions of specific accounting personnel members.

2.2. There shall not be any separate structural subdivisions within the company.

2.3. The company shall prepare internal and external accounting statements. The external accounting statements shall include:

1) balance sheet;

2) profit and loss accounts;

3) notes to the balance sheet;

4) auditor s report confirming reliability of the accounting statements;

5) explanatory note.

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The contents, formats, frequency and deadlines of submission of the internal statements, as well as the list of persons responsible for the preparation of such internal statements and the list of potential users shall be approved internally.

3. Accounting Methods Selected

3.1. Corporate accounts shall be maintained on a general-ledger double-entry accounting basis in accordance with the Corporate Chart of Accounts (Attachment No. 1).

3.2. Corporate accounts shall be maintained on the basis of source accounting documents. The company shall apply the standard formats of source accounting documents approved by the State Statistics Committee. In addition, the company shall apply home-designed and properly approved source accounting document formats containing all statutorily required details

Source documents shall service as the basis for the entries in the books of account; such source documents shall be prepared at the time of, or immediately after, the consummation of a business operation and shall contain the following statutorily required details:

name of document (form);

form code;

date of preparation;

name of the entity on whose behalf the document is prepared;

content of the business operation;

business operation measures (in physical and monetary terms);

names of officers responsible for the consummation and proper execution of the business operation;

personal signatures and names of signatories.

3.3. The information in the properly accepted source documents that is to be recognized in the corporate accounts shall accumulate and be systemized in the books of account designed and recommended by the Ministry of Finance of the Russian Federation and other authorities wherein the power to regulate accounting practices is vested by appropriate Federal Laws.

The information on business operations consummated over a given period of time shall be transferred, on a summary basis, from the books of account into the accounting statements.

3.4. No corrections shall be allowed in the source documents and in the corporate books of account. Any correction of an error shall require verification by a signature of the original signatory to the document, with the date of such correction stated. In no event shall any corrections be possible in the cash/banking documents.

3.5 The source documents, the books of accounts and the accounting statements shall be stored in accordance with the statutorily prescribed procedures and time periods for such storage. The chief accountant shall be responsible for their security during the period of their remaining current and for their timely archiving.

4. Evaluation of assets, liabilities and business operations

4.1. For the purposes of recognition in the accounts and the accounting statements, the corporate assets, liabilities and business operations shall be subject to evaluation. Such evaluation shall be performed in monetary terms by summing any actual expenses.

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Other evaluation methods shall apply when so prescribed by the laws of the Russian Federation, the applicable accounting regulations, this Policy and other regulations of the Russian Federation.

4.2. The organization shall evaluate its assets, liabilities and business operations in the official currency of the Russian Federation, that is, in Russian Rubles.

4.3. Accounting entries on the corporate foreign currency accounts and in respect of foreign currency-denominated transactions shall be posted in the official currency of the Russian Federation, with amounts of such entries to be determined by translating the foreign currency at the exchange rate of the Central Bank of the Russian Federation quoted as of the transaction date. At the same time, such entries shall be posted in the actual currency of payment.

5. Inventory

5.1. To assure reliability of the corporate accounting and reporting data, inventories of assets and liabilities shall be taken to verify and document their availability, condition and value. Inventories shall be taken in accordance with Order of the RF Ministry of Finance dt. 13.06.95 No. 49 On approval of methodological recommendations on inventories of assets and financial liabilities .

5.2. The number of inventories in a given year, the dates of their taking, the list of assets and liabilities subject to each such inventory shall be determined internally, except where such inventory is statutorily required:

before preparation of the annual accounting statements, except for the assets that was subject to inventory on or after 01 October of the current year. Fixed assets inventories shall be taken once in every three years;

upon reassignment of responsible custodians (as of the takeover date);

whenever any instances of theft/misuse of, or damage to, valuable items are identified;

after fires or other acts of God;

in other cases provided for by the laws of the Russian Federation.

The results of any such inventory taking shall be executed in the form of an appropriate statement to be signed by the members of the commission and approved by the chief executive officer of the company.

5.3. Any deviations of the actual asset positions from the accounting data identified during inventories or other checks shall be settled as follows:

any excess assets, valuable items, cash and other property shall be recognized and posted to the financial results of the entity s business operations during the month when the appropriate inventory taking was completed.

6. Investments in capital assets

6.1. Capital investment shall include expenses of construction/installation operations, purchases of equipment, tools, inventories, other capital work and expenses. Capital investment shall be recognized in the corporate accounts as incurred.

6.2. Capital construction facilities in temporary operation pending their setting into permanent operation shall not be accounted for as fixed assets. For accounting and reporting purposes, any expenses related to such facilities shall be recognized as capital investment in progress.

7. Financial investments

7.1. Financial investments shall include

the entity s investments in government and municipal securities;

securities of other corporate entities;

contributions to share capital of other corporate entities;

loans extended to other corporate entities;

deposits with lending institutions;

accounts receivable acquired by way of an assignment of claims.

7.2. Financial investments shall be accounted for in accordance with the Accounting Regulation 19/02 approved by Order of the Ministry of Finance dt. 10.12.2002 No. 126n. Financial investments shall be accounted for on separate subaccounts of Account 58.

7.3. Financial investments shall be recorded at their historical value. Such historical value shall be the total of the following expenses effectively incurred by way of such financial investments:

amounts paid to seller in accordance with the contract;

amounts paid in respect of information and consulting services related to the financial investments;

fee payable to the intermediary via whom the financial investment was made;

other expenses directly related to such financial investments.

7.4. General expenses shall not be included in the effective cost of financial investments unless they bear a direct relation to such financial investments.

7.5. Effective expenses shall be determined with due regard to the differences in values occurring prior to the recognition of the assets.

7.6. Unless otherwise prescribed by the RF laws, the assessed monetary value of the financial investments made as the contribution to the share capital, as agreed upon between the incorporators, shall be the historical value of such financial investments.

7.7. Upon disposal of financial investments (except for shares in share/unit capital of other entities, loans receivable, bank deposits, accounts receivable acquired by way of an assignment of claims) the current market value whereof is not determined, the value of such investments shall be determined by way of a evaluation based on the FIFO principle.

7.8. Contributions to share/unit capital of other entities (except for shares in joint-stock companies) shall be valued upon disposal at the historical value of each financial investment accounting unit being disposed of. The accounting unit of contributions to share/unit capital of other entities shall be equal to 0.01% of the appropriate contribution.

7.9. Loans receivable from other entities are recorded on Account 58. Interest accrued is recorded on Account 76 as part of the accounts receivable.

7.10. In the corporate accounts, any interest accrued on loans extended to other entities shall be recognized as part of other short-term or long-term accounts receivable, depending on the maturity of such receivables.

7.11. Guided by the principles of rational and reliable recognition of business operations, the company recognizes debt outstanding from lending institutions on deposit accounts together with interest accrued on such deposit accounts.

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8. Fixed assets

8.1 The fixed assets are the portion of the corporate assets that are used as the facilities enabling the manufacturing of products (provision of work or services) over long periods of time, i.e. the useful life periods of over 12 months, or the ordinary operational cycle if longer than 12 months.

8.2. The fixed assets shall include buildings, installations, operating and power machines and equipment, measurement and control instruments and devices, computing equipment, transportation vehicles, industrial and general business inventories and accessories, and other items of appropriate description.

Land plots, natural objects (water, minerals and other natural resources) in the company s possession, as well as capital investments in leased fixed assets shall be accounted as part of the corporate fixed assets, too.

8.3 The corporate practices of fixed assets accounting shall be in accordance with Accounting Regulation IIbY 6/01 Fixed assets accounting approved by Order of the RF Ministry of Finance No. 26n dt. 30.03.2001 (as further amended), Methodological Recommendations on Fixed Assets Accounting approved by Order of the RF Ministry of Finance No. 33n dt. 20.07.1998. (as further amended), and other regulations.

Fixed assets shall be accounted for at their historical value, i.e. at the total of the actual costs of their acquisition, construction and manufacturing less the value-added tax and other recoverable taxes (except where the laws of the Russian Federation provide otherwise). The following shall be included in the actual costs of fixed assets acquisition, construction and manufacturing:

amounts paid to the supplier (seller) pursuant to appropriate contracts;

amounts paid to third parties under appropriate construction and other contracts;

amounts paid to third parties for information and consulting services related to the fixed assets acquisition;

registration fees, stamp duties and other similar payments effected in connection with the acquisition of title to a given fixed asset;

customs duties;

non-recoverable taxes paid in connection with the acquisition of a given fixed asset;

fees paid to the intermediary via whom the given fixed asset was acquired;

other costs directly related to the acquisition, construction and manufacturing of a given fixed asset, in particular, any interest on a loan received for the purposes of acquisition, construction or manufacturing of a fixed asset accrued up to the date when the fixed asset is recognized in the corporate accounts.

8.4. The actual costs of fixes assets acquisition and construction shall be determined with due regard to the differences in respective amounts that occur before the fixed assets are recognized on Account 01 (on setting in operation) where payments are made in Rubles and in

an amount equivalent to the stated amount in foreign currency (reference monetary units). Any such differences occurring after the fixed assets have been recognized on Account 01 (on setting in operation) shall be recognized as part of non-operating expenses (gains) on Account 91 Other income and expenses .

8.5. The monetary value of fixed assets delivered by way of a contribution to the corporate share capital as agreed upon between the entity s incorporators (members) shall serve as the historical value of such fixed assets, unless otherwise provided for by the laws of the Russian Federation.

8.6. The historical value of fixed assets acquired under contracts that provide for the discharge (payment) of obligations in a non-monetary form shall be determined as prescribed by Item 11 of Accounting Regulation 6/01.

8.7. The value of fixed assets as initially recognized in the accounts may only be modified when so prescribed by the laws of the Russian Federation.

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Modification of the initial value of fixed assets shall be possible in the cases of their extension, retrofitting, reconstruction or partial demolition.

8.8. The fixes assets shall be subject to revaluation in accordance with the applicable laws of the Russian Federation, with the maximum frequency of once in a year.

Any additional value of a fixed asset resulting from a revaluation shall be posted Dr 01 Fixed Assets and Cr 83 Capital Surplus. Any additional value equal to the impairment identified in prior period revaluation initially charged Dr 91 as operating expense shall be posted Cr 91 as operating income.

Any impairment of the fixed assets value resulting from a revaluation shall be charged to the retained earnings (accumulated loss) Dr 84 Retained Earnings (Accumulated Loss) and shall be disclosed in the corporate accounting statements.

Any impairment of the fixed assets value shall be charged to the capital surplus (Account 83) formed by the additional value resulting from revaluation of the same fixed asset in prior years. Any excess of a fixed asset value impairment over its additional value posted to the capital surplus as the result of revaluation performed in prior periods shall be charged to the retained earnings account (Account 84).

A fixes asset shall be revalued by way of recalculating its historical value or the current (replacement) value, if the asset has been earlier revalued, and the depreciation amount accrued over the total period of the asset utilization.

The results of a fixed assets revaluation performed as of the first day of the reporting year shall be recorded separately in the corporate accounts. The results of such revaluation shall not be included in the accounting statements of the previous year and shall be taken into account in obtaining the data for the balance sheet as of the beginning of the reporting year.

8.9. Depreciation is accrued using the standard rates calculated on the basis of the useful lives of specific fixed assets. Such useful lives shall be determined internally upon the recognition of the asset in the accounts based on the Depreciable Fixed Assets Classifier approved by Resolution of the RF Government dt. 01 January 2002 No. 1.

The company shall apply the straight-line method of depreciation.

8.10. In the corporate accounts, the amount of depreciation accrued on operational facilities shall be debited to operational and distribution costs (Accts. 20,23,25,26,44) in correspondence with credit of the depreciation account (Acct. 02).

With regard to the fixed assets made available on a lease basis, the depreciation charges shall be credited to the depreciation account (Acct. 02) in correspondence with debit of the commercial lease-related expenses account (Accts. 90, 91).

8.11. Fixed assets with value not exceeding Rubles 10,000 per unit shall be charged to operational (distribution) costs by accruing depreciation at 100% as they are released in operation. Any books and brochures purchased shall be charged to operational (distribution) costs as they are released in operation, regardless of their historical value.

8.12. With regard to used fixed assets, the useful life is calculated as the difference between the useful life according to the Fixed Assets Classifier approved by Resolution of the RF Government dt. 01 January 2002 No. 1 for new assets, and the effective period of operation.

The useful life of a fixed asset shall be determined internally when the asset is recognized in the accounts. The useful life of a fixed asset is determined based on:

the expected life of the asset depending on the expected performance or output;

the expected physical wear and tear;

the statutory and other limitations on the use of this asset (such as the lease term).

8.13. Pursuant to the applicable law, the following are not subject to depreciation:

fixed assets that do not lose their merchantability over time (housing facilities (residential houses, hostels, apartments and the like)));

properly laid-up assets;

area development facilities;

road facilities;

perennials under operational age;

land plots and natural objects.

8.14. Depreciation shall be charged continuously over the useful life of the fixed asset unless it is laid-up by decision of the chief executive officer for a period of more than three months and except for restoration periods of more than 12 months.

If the initially assessed performance parameters of an asset improve (increase) as the result of its restoration or modernization, the useful life of such asset shall be subject to reassessment.

8.15. To account for the disposal of fixed assets (sale, write-off, partial demolition, etc.), Subaccount 03 Disposals of Fixed Assets shall be opened within Account 01 Fixed Assets. The residual value of a fixed asset disposed of shall be transferred from Cr 01.03 to Dr 91 Other Income and Expenses.

Upon disposal of a fixed asset any additional value resulting from revaluation shall be transferred from the corporate capital surplus (Acct. 83) to retained earnings (Acct. 84).

8.16. Fixed assets repair-related expenses shall be included in the cost of sales as parts of appropriate cost elements without establishment of a repair provision.

9. Intangible assets

9.1. Intangible assets shall be accounted for in accordance with the Accounting Regulation 14/2000 approved by the RF Ministry of Finance dt. 16.10.2000 No. 91n.

Intangible assets shall include those meeting the following criteria:

absence of a physical structure,

possibility for the entity to identify (distinguish, separate) from other property,

fitness for use in the manufacturing of products, provision of work or services, or in connection with the entity s internal management needs,

fitness for use over long periods of time (i.e. with useful lives of over 12 months), *ability to earn economic benefits (income) for the entity in the future,*

availability of properly executed documents confirming the existence of the asset itself and the entity s exclusive right to the results of intellectual activities (patents, certificates, other protections, etc.).

Intangible assets shall include the following items of intellectual property (exclusive rights to results of intellectual activities):

the exclusive right of the owner to the trademark,

the exclusive copyright to computer software and databases;

the exclusive right of the patent holder to the invention, industrial design, or model

the entity s goodwill,

organizational expenses (expenses related to the incorporation of the corporate entity that are recognized as a contribution towards the share/unit capital pursuant to the constitutive documents).

other assets pursuant to Accounting Regulation 14/2000.

9.2. Intangible assets shall be recognized in the accounts and the accounting statements at the total amounts of acquisition costs and expenses incurred to make them fit for their expected purpose.

The historical value of intangible assets shall be determined based on the following amounts:

- *paid pursuant to the terms and conditions of appropriate contracts;*
- *paid to third parties for information and consulting services related to the acquisition of such intangible assets;*
- *registration fees, customs and patent duties and other similar payments related to the acquisition of intangible assets;*
- *non-recoverable taxes;*
- *other expenses directly related to the acquisition of intangible assets.*

The initial value of intangible assets received as contribution to the share capital shall be determined based on the assessment of their monetary value as agreed upon among the entity s incorporators (members), unless otherwise provided for by the RF laws.

The value at which the intangible assets were initially recognized in the accounts shall only be modified when so prescribed by the applicable RF laws.

9.3. Intangible assets shall be recognized in the corporate accounts by posting them Dr Acct. 04 in correspondence with Acct. 08.

9.4. The company shall apply the straight-line method to amortize the intangible assets based on their initial value and the amortization rates calculated depending on the estimated useful life of a particular asset.

9.5. The useful lives of intangible assets shall be determined internally when a particular asset is recognized in the accounts. The useful life of a trademark is determined based on the effective period of the appropriate certificate. Where it impossible to determine the useful life of an intangible asset, the amortization rates are established based on a period of twenty years.

9.6. Intangible assets shall be amortized in the corporate accounts by crediting the amortization charges on Acct. 05 in correspondence with operational and distribution cost accounts.

9.7. To account for disposals of intangible assets (sale, write-off, partial liquidation and the like), Subaccount 02 Disposals of Intangible Assets shall be opened within Account 04 Intangible Assets. The value of the intangible asset disposed of shall be posted to the debit of this account, with the amortization amount accumulated on Acct. 05 Amortization of Intangible Assets being transferred to the credit of the same subaccount. The residual value of the intangible asset disposed of shall be charged from Cr 04.02 to Dr 91 Other Income and Expenses.

10. Acquisition, preparation, and recording of inventories and their writedown.

10.1. Production inventories are accounted on the basis of Accounting Regulation PBU 5/01, Accounting of Inventories, approved by RF Ministry of Finance Order No. 44n of June 9, 2001.

Inventories include:

17. ***raw materials and consumables used in production, intended for sale, and used for management needs;***

18. ***finished products (for accounting of release of finished products see section 13);***

19. ***goods.***

10.2. Production inventories and goods are reflected in accounting records and reports at actual cost price.

10.3. Actual cost price is determined on the basis of costs for their acquisition:

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amounts payable to the seller in accordance with a contract, excluding the value-added tax and other recoverable taxes;

amounts payable to organizations for informational and consulting services associated with the acquisition of inventories;

customs duties;

expenses related to procurement and transportation of inventories to the place of use thereof, including insurance costs;

fees payable to an intermediary organization through which the inventories were purchased;

unrecoverable taxes paid in connection with acquisition of production inventories;

other costs directly associated with acquisition.

10.4. Actual costs for acquisition of inventories are determined taking into account exchange-rate differences arising before inventories are accepted for accounting, in cases of payment in rubles of amounts denominated in a foreign currency (conventional monetary units). Exchange-rate differences that arise after inventories are accepted for accounting are reflected as non-operating expenses (income) on account 91, Other Income and Expenses.

10.5. The cost price of production inventories and goods also includes costs for packaging. If the cost of packaging accepted from suppliers with production inventories is included in their price, then, if necessary, the cost of packaging will be excluded from total expenses at its price of possible use.

10.6. The actual cost price of inventories received under contracts provided for performance of obligations (payment) in non-pecuniary means is deemed to be the value of the assets transferred or to be transferred by the organization. The value of assets transferred or to be transferred by the organization is determined on the basis of the price, at which the organization determines the value of similar assets. If this value cannot be established, the value of received inventories is determined based on the price of acquiring similar inventories.

10.7. The actual cost price, at which inventories are accepted for accounting, is not subject to change, except in the cases established by legislation of the Russian Federation.

10.8. When material resources are charged off to production or otherwise disposed of, their actual cost price is determined according to the average cost price per unit of each type.

10.9. A person appointed by the organization CEO shall be charged with the responsibility for accounting fuels and lubricants. The person in charge shall submit every month to the accounting office the report on fuels and lubricants consumption prepared on the basis of waybills.

10.10. The cost of consumed fuels and lubricants shall be written off as the cost price of products, works and services at rates approved by the enterprise CEO and developed on the basis of Consumption Rates of Fuels and Lubricants for Motor Vehicles (P3112194-0366-97) approved by the RF Ministry of Transport. (I suggest to omit this paragraph, since we do not have it! When we do have it, then we ll include this provision).

10.11. The cost of materials, the title to which under the contract is transferred at the instant of shipment, as well as those which are still en route or at suppliers warehouses at the end of the month, shall be debited to account 10, Materials , subaccount, Materials en route, title to which has been transferred , and credited to account 60, Settlements with suppliers and contractors , (without receiving these inventories at the warehouse) using the prices specified in the contract and specifying their value later in compliance with the actual cost price.

10.12. When materials are disposed of (sale, write-off, gratuitous assignment, etc.), their value is debited to account 91, Other Income and Expenses, and credited to account 10, Materials.

10.13. Special clothes shall be accounted in compliance with the Regulations on Accounting of Special Clothes and Special Outfit.

11. Accounting of production costs, distribution of expenses and calculation of products cost price

11.1. For the purpose of accounting for the organization s production costs relating to ordinary activities, the chart of accounts provides the following accounts:

20, Primary production

25, Factory costs

26, General administrative expenses .

11.2. Direct costs of the organization related to ordinary activities are accumulated during the month in individual subaccount of account 20, Primary Production, according to expense and calculation items.

11.3. The analytical accounting of account 20 accumulates expenses according to the organization s types of activities. Items of accounting expenses on providing trademarks for use are deemed the trademarks, while contracts are items of accounting under management, consulting or work performance, as well as other activities, contracts.

11.4. Wages and salaries debited to account 20 for ordinary activities are determined on the basis of the number of actual working hours. Amounts of wages and salaries are distributed by expense items within each activity pro rata to the revenues (less VAT and other taxes) for each item of expenses.

11.5. Amounts of traveling allowances for a business trip directly connected with performance of ordinary activities are direct expenses and are debited to account 20 for a particular activity and for a particular contract, expenses of which include such business trip.

11.6. Expenses, which at the moment of their arising cannot be attributed to concrete items of expenses, are reflected as a debit to account 25 Factory costs .

11.7. Factory costs are charged off to the primary production and distributed by activities and expense items pro rata to wages and salaries.

11.8. General (administrative) expenses are distributed among activities pro rata to revenues (less taxes) from sale of products (works, services) received from various types of activities.

Revenues from sale (less taxes) for each expense item are the basis for distributing such expenses among individual expense items.

11.9. General (administrative) expenses are charged to sold products (debited to account 90) at the end of the reporting period.

11.10. The organization uses additional registers for the off-system accounting of aggregate expenses on operations VAT-taxable and non-taxable in compliance with the procedure of separate accounting of expenses approved by the organization.

12. Production in progress and release of rendered services.

12.1. The date of works performed and services rendered is the date of acceptance certificate of performed works (rendered services). Works and services, for which acceptance certificates of performed works (rendered services) are not signed, are accounted as production in progress in account 20.

12.2. The date of recognizing income from providing trademarks for use under license agreements is deemed the last day of a month.

12.3. Production in progress is reflected on the balance sheet in the amount of direct costs.

12.4. Works commissioned and services rendered by the customer within a reporting period are credited from account 20 and debited to account 90.01, Sales , on the basis of acceptance certificate of performed works (rendered services).

13. Deferred expenses

13.1. Expenses incurred in a reporting period but relating to subsequent reporting periods are reflected in records and reports as deferred expenses and shall be assigned to costs (or to corresponding sources of the organization s funds) evenly throughout the period, to which they relate.

The deferred expenses include:

licenses to engage in certain types of activity that are discharged during the period of validity of the license;

expenses connected with acquiring financial investments and intangible assets before these assets are accepted for accounting;

expenses connected with designing new trademarks;

amounts of amortization of trademarks not used in the process of implementing activities;

other expenses related to future reporting periods.

13.2. Amounts of amortization accumulated in account 97 are charged off as current expenses of the reporting period evenly throughout 6 months beginning from the month following the month, during which the use of intangible assets began.

14. Sale expenses

14.1. Expenses connected with sale of works and services are reflected in account 44, Sale expenses . Such expenses include, in particular, expenses on registration of license agreements.

14.2. These expenses are recognized in full within the reporting period and are debited to account 90, Sales .

15. Other operating income and expenses

15.1. Other income and expenses of the organization are recognized in accounting records in accordance with accounting regulations PBU 9/99 and PBU 10/99 and reflected in account 91, Other Income and Expenses.

15.2. Penalties and fines for violation of contract terms and conditions are recognized in accounting in the same reporting period, during which the court awarded a judgment on their recovery or the organization was adjudged a debtor.

15.3. Direct expenses connected with giving loans to other organizations are reflected as a debit to account 91 as operating income (paragraph 35 of PBU 19/02).

15.4. Interest received from giving organization s funds as loans are reflected as a credit to account 91 as other operating income (paragraph 7 of PBU 9/99).

16. Capital and reserves

16.1. The charter capital is recognized in accounting records as the amount recorded in the organization s foundation documents as the totality of contributions (interests, shares at par value, share contributions) of the founders (participants) of the organization.

16.2. Duly conducted revaluation increases of the organization s non-current assets are recorded as revaluation surplus.

16.3. The difference between the sale value and par value of shares generated in the process of establishing or increasing the charter capital is recognized in accounting as the issue income within the additional capital.

16.4. Assets received gratuitously, including under a contract of donation, are recorded as deferred income and reflected as a credit to account 98, Deferred Income, in correspondence with account 08, Investments in non-current assets. Depreciation of gratuitously received fixed assets is credited to account 02, Amortization of Fixed Assets, in correspondence with accounts for production expenses and distribution costs. Simultaneously with depreciation, amounts recorded on account 98 in respect of gratuitously received assets are credited to account 91, Other income and expenses .

16.5. To provide for uniform allocation of expenses to the cost of sales, the company establishes a provision against anticipated annual leaves-related expenses and payments. The provision is recognized by posting Cr Acct. 96 Provisions Against Anticipated Expenses in correspondence with operational and distribution cost accounts.

16.6. The organization creates the following reserve:

Provisions for devaluation of investments in securities (account 59). The relevant entry in the amount of this provision is made as a debit to account 91, Other income and expenses , and as a credit to account 59, Provisions to devaluation of investments in securities . In case of an increase in the market value of securities, for which the corresponding reserves were created earlier, a debit entry is made to account 59, Provisions for Devaluation of Investments in Securities, and a credit entry is made to account 91, Other Income and Expenses. It is necessary to assess the necessity of creating this provision!!!

17. Accounting of Property Insurance Costs

17.1. The organization may make expenses on voluntary property insurance and medical insurance of its employees.

17.2. The above payments are included in full in the products cost price.

17.3. The amounts of insurance premiums are reflected as a credit to account 76/1, Payments for property and personal insurance , in correspondence with production costs accounts 20, 25, 26, etc.

17.4. The above amounts of paid insurance premiums are written off from credit of monetary assets accounts (51, 52 and 50) and debited to account 76/1.

17.5. Losses of insured inventories are written off from credit of accounts 10, 12, 40, etc. and debited to account 76/1.

17.6. Amounts of insurance money received by the organization from insurance companies are reflected as a debit to monetary assets accounts (51, 52, 50, and 55) and as a credit to account 76/1.

17.7. Losses from insured accidents, which are not compensated by insurance money, are entered as a debit to account 99, Profits and losses , from credit of account 76/1.

17.8. Analytical accounting of account 76/1 is broken down by individual insurance companies and individual insurance contracts.

18. Accounting of profit (loss), funds, and use of profits

18.1. Profit (loss) represents the final financial result (profit or loss) identified for the reporting period on the basis of accounting of all business operations of the organization and is reflected in account 99, Profits and losses.

The final financial result is formed from the financial outcome of ordinary activities, as well as other income and expenses, including extraordinary income and expenses. Organization s losses (losses and expenses) are reflected as a debit, and profits (income) as a credit, to account 99.

18.2. At the end of the reporting year, in the preparation of the annual financial statements, account 99, Profits and Losses, is closed with a final December entry credited (or debited) to account 84, Retained Profit (Uncovered Losses) of the Reporting Year.

18.3. Profits or losses identified in the reporting year but relating to operations of past years are included in the financial results of the reporting year.

18.4. Income received in the reporting year but relating to subsequent reporting periods is reflected in accounting records and reports as a separate line in account 98, Deferred Income. Such income is subsequently assigned to financial results upon the occurrence of accounting period, to which it relates.

18.5. Profits remaining at the disposal of the enterprise are distributed in accordance with a resolution of the general shareholders meeting.

19. Accounting for exchange differences and differences in total amounts.

19.1. Positive and negative exchange differences arising due to changes of official exchange rates of foreign currencies to Russian Ruble over the reporting year shall be accounted for as part of extra-sale income and expenses at Account 91 titled Other Income and Expenses .

19.2. Differences in total amounts arising in the course of reflecting organization s income (revenue) gained within the period for which the revenue is reflected, shall be accounted for as part of the revenue.

19.3. In the event the differences in total amounts have arisen in the year following the one for which the income (revenue) have been reflected, such differenced shall be classified as extra-sale income (expenses).

19.4. Differences in total amounts having arisen for operations pertaining to purchase of fixed assets and inventory items and to financial investments after acceptance of these assets for accounting, shall be classified as extra-sale income (expenses).

20. Assessment of indebtedness relating to loans received.

20.1. Accounting of indebtedness pertaining to received loans shall be performed in accordance with the Accounting Regulation titled Accounting of Loans and Credits and Costs of Their Servicing (PBU 15/01), approved by the Order No. 60n as of August 02, 2001, issued by the RF Ministry of Finance.

20.2. Borrowed funds, the period for repaying which under a loan or credit agreement exceeds 12 months, shall be accounted for until the expiry of the aforesaid period, as part of long-term indebtedness, or, in other words, long-term indebtedness shall not be converted into short-term one.

20.3. Additional costs relating to receipt of loans and credits, allocation of borrowed funds, shall be accounted for as part of operating expenses of the reporting period during which they have been incurred.

20.4. Organization s liabilities to banks and other organizations shall be assessed taking into account interest having accrued thereon. Interest shall be reflected in the accounting in accordance with PBU 15/01. Accrued interest amounts, credits and loans not having been repaid in proper time, shall be accounted for separately.

21. Introducing amendments and addenda to the accounting policy.

21.1. Changes to the accounting policy may be introduced in the following cases:

- ***Reorganization of enterprise;***
- ***Change of enterprise owners;***
- ***Changes in regulatory basis or in legislation on accounting;***
- ***Elaboration of new methods of record-keeping (either by Ministry of Finance, or by the enterprise itself);***
- ***New material changes in enterprise operating conditions;***
- ***As well as in other cases stipulated by the Law on Accounting.***

21.2. In order to ensure comparability, any changes in accounting policy shall be introduced at the beginning of a new fiscal year. Exceptions are possible if regulations on book-keeping and accounting introduce new norms and standards ex post facto.

Head of the Enterprise

Chief Financial Director	***V.V. Preobrazhensky***
Chief Accountant	***Ye.Ye. Laryushkina***

BALANCE SHEET

		Codes
	OKUD Form No. 1	0710001
at **April 01, 2003**	Date (year, month, day)	
Organization: **Open Joint Stock Company Wimm-Bill-Dann Foods**	OKPO code	57024227
Taxpayer Identification Number	INN	7709342399
Type of activity: **Production and sale of dairy and cultured milk products** OKDP		84500
Organizational and legal form / form of ownership: **private**		
	OKOPF / OKFS	47 34
Unit of measure: **thousand rubles**	OKEI code	

	Line code	**At beginning of reporting period**	**At end of reporting period**
1	**2**	**3**	**4**
ASSET			
I. NON-CIRCULATING ASSETS			
Intangible assets (04, 05)	110	975	2 722
patents, licenses, trademarks (service marks), other similar rights and assets	111	975	2 722
formation expenses	112		
Goodwill	113		
Fixed assets (01, 02, 03)	120		348
land plots and natural resources	121		
buildings, plant, and equipment	122		336
Construction in progress (07, 08, 16, 61)	130	4 240	13 240
Profitable investments in tangible assets (03)	135		
including: property for leasing	136		
property provided under lease contract	137		
Long-term financial investments (58,59)	140	2 069 571-	3 437 953
including: investments in subsidiaries	141	2 069 571-	2 474 571
investments in dependent companies	142		
investments in other organizations	143		
loans to organizations payable in more than 12 months	144		963 383
other long-term financial investments	145		
Other non-circulating assets	150		
TOTAL for Section I	190	2 074 786	3 454 263
II. CIRCULATING ASSETS			
Inventories	210	9 495	24 092
raw materials, consumables, and other similar assets (10, 12, 13,16)	211		33
livestock in breeding and feeding (11)	212		
work in progress costs (distribution costs) (20, 21, 23, 29, 30, 36, 44)	213		13 186
finished products and goods for resale (16, 40, 41)	214		
shipped goods (45)	215		
deferred expenses (97)	216	9 495	10 871
other reserves and expenses	217		
Value-added tax on acquired assets (19)	220	2 349	3 237

Accounts receivable (payment expected more than 12 months after the reporting date)	230		
buyers and customers (62, 76, 82)	231		
bills of exchange receivable (62)	232		
amounts owed by subsidiaries and dependent companies (78)	233		
advances made (61)	234		
other debtors	235		
Accounts receivable (payment expected within 12 months of the reporting date)	240	390 816	324 861
buyers and customers (62, 76, 82)	241	5 434	40 209
bills of exchange receivable (62)	242		
amounts owed by subsidiaries and dependent companies (78)	243		
amounts owed by participants (founders) in respect of contributions to charter capital (75)	244		
advances made (61)	245	350 735	258 236
other debtors	246	34 647	26 416
Short-term financial investments (56, 58, 82)	250	3 456 758	2 410 918
including: loans to organizations payable in less than 12 months	251	3 138 914	2 410 918
own shares redeemed from shareholders	252		
other short-term financial investments	253	317 844	
Monetary assets	260	165 878	144 826
including: cash (50)	261	5	74
settlement accounts (51)	262	9 503	142 996
foreign-currency accounts (52)	263	154 211	775
other monetary assets (55, 56, 57)	264	2159	980
Other circulating assets	270		
TOTAL for Section II	290	4 025 296	2 907 934
BALANCE (sum of lines 190 + 290)	300	6 100 082	6 362 197

	Line code	At beginning of reporting period	At end of reporting period
1	2	3	4
LIABILITIES			
III. CAPITAL AND RESERVES			
Charter capital (85)	410	880 000	880 000
Additional capital (87)	420	4 958 622	4 958 622
Reserve capital (86)	430		
statutory reserves	431		
reserves formed in accordance with organizational documents	432		
Social fund (88)	440		
Special-purpose financing and receipts (96)	450		
Retained earnings of previous years (88)	460		252 427
Uncovered losses of previous years (88)	465	(915)	(915)
Undistributed profit of the reporting year (88)	470	252 427	68 921
Uncovered losses of the reporting year (88)	475		
TOTAL for Section III	490	6 090 134	6 159 055
IV. LONG-TERM LIABILITIES			
Loans and credits (67)	510		
bank credits repayable more than 12 months after the reporting date	511		
loans repayable more than 12 months after the reporting date	512		
Other long-term liabilities	520		
TOTAL for Section IV	590		
V. SHORT-TERM LIABILITIES			
Loans and credits (66)	610		160 384
bank credits repayable within 12 months of the reporting date	611		
loans repayable within 12 months of the reporting date	612		160 384
Accounts payable	620	9 948	42 635
suppliers and contractors (60, 76)	621	9 708	15 827
bills of exchange payable (60)	622		
amounts owed to subsidiaries and dependent companies (78)	623		
amounts owed to employees (70)	624	32	12 739
amounts owed to state extrabudgetary funds (69)	625		2 981
amounts owed to the budget (68)	626	202	7 660
advances received (62)	627		3 388
other creditors (71,76)	628	6	39
Income payable to participants (founders) (75)	630		
Deferred income (83)	640		
Provisions for expenses (89)	650		125
Other short-term liabilities	660		
TOTAL for Section V	690	9 948	203 144
BALANCE (sum of lines 490 + 590 + 690)	700	6 100 082	6 362 199

STATEMENT
OF ASSETS ON OFF-BALANCE ACCOUNTS

Item	Line code	At beginning of reporting period	At end of reporting period
1	2	3	4
Rented fixed assets (001)	910		49 336
including leased assets	911		
Valuables in custody (002)	920		
Consigned goods (004)	930		
Bad debts written off as losses (007)	940		
Received security for obligations and payments (008)	950		53 096
Issued security for obligations and payments (009)	960	1 320 743	1 553 272
Depreciation of housing (014)	970		
Depreciation of amenities and similar facilities (015)	980		

STATEMENT OF PROFITS AND LOSSES

		Codes
	OKUD Form No. 2	0710002
at **April 01, 2003**	Date (year, month, day)	57024227
Organization **Open Joint Stock Company Wimm-Bill-Dann Foods**	OKPO code	7709342399
		84500
Taxpayer Identification Number	INN	
Type of activity **Production and sale of dairy and cultured milk products** OKDP		
Organizational and legal form / form of ownership **private**		47 34
	OKOPF / OKFS	
Unit of measure: **thousand rubles**	OKEI code	

accrual basis

Item	Line code	Reporting period	Same period of preceding year
1	2	3	4
I. Income and expenses for usual activities			
Proceeds (net) from sale of goods, products, work, services (less the VAT, excises, and similar obligatory payments)	010	66 912	1 115
including from sale of: finished products	011		
goods	012		
services	013		
other sales	014		
Cost price of goods, products, work, and services sold	020	1 680	3

finished products	021		
goods	022		
services	023		
other sales	024		
Gross profit	029	65 232	1 112
Trading costs	030	3 972	
Management costs	040	55 291	18 585-
Profit (loss) from sales (lines (010 - 020 - 030 - 040)	050	5 968	(17 473-)
II. Operating income and expenses			
Interest receivable	060	84 940	2 653
Interest payable	070	614	
Income from participation in other organizations	080		
Other operating income	090	474 665	
Other operating expenses	100	489 688	207
III. Non-sales income and expenses			
Non-sales income	120	32 161	51 317
Non-sales expenses	130	13 706	4 035
Profit (loss) before tax (lines (050 + 060 - 070 + 080 + 090 - 100 + 120 - 130))	140	93 726	32 256
Tax on profit and other similar compulsory payments	150	24 805	12 084
Profit (loss) from usual activities	160	68 921	20 173
IV. Extraordinary income and expenses			
Extraordinary income	170		
Extraordinary expenses	180		
Net profit (undistributed profit (loss) of the reporting period) (lines (160 + 170 - 180))	190	68 921	20 173

INDIVIDUAL INCOME AND EXPENSE ITEMS

Item	Line code	Reporting period		Same period of preceding year	
		profit	Loss	Profit	Loss
1	2	3	4	5	6
Fines, penalties, and charges acknowledged by payer or payable pursuant to the decision of a court (arbitral tribunal)	210				
Accumulated income (loss)	220		16		
Compensation for losses caused by nonperformance or improper performance of obligations	230				
Exchange-rate differences in foreign-exchange operations	240	628	3 037		
Reduction of cost price of manufacturing inventory by the end of the reporting period	250				
Write-off of receivables and payables upon expiration of limitations period	260				

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WIMM-BILL-DANN FOODS OJSC

By: /s/ Vladimir V. Preobrajensky
Name: Vladimir V. Preobrajensky
Title: Chief Financial Officer
Wimm-Bill-Dann Foods OJSC

Date: May 22, 2003