Open Joint Stock Company “Company M.video” and subsidiaries

Consolidated Financial Statements
For the Year Ended 31 December 2009

OJSC “COMPANY M.VIDEO” AND SUBSIDIARIES

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OJSC “COMPANY M.VIDEO” AND SUBSIDIARIES

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

The following statement, which should be read in conjunction with the independent auditors’ responsibilities stated in the independent auditors’ report set out on pages 2-3 is made with a view of distinguishing the respective responsibilities of the management and those of the independent auditors in relation to the consolidated financial statements of OJSC “Company M.video” and subsidiaries (the “Group”).

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Group as at 31 December 2009 and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards (“IFRS”).

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2009 were approved on 24 May 2010 on behalf of the Board of Directors by:

A. Tynkovan
Chief Executive Officer

C. Parks
Chief Financial Officer

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Moscow, 125047
Russia

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INDEPENDENT AUDITORS' REPORT

To the shareholders of Open Joint Stock Company "Company M.video":

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Company M.video" and its subsidiaries (the "Group"), which comprise of the consolidated balance sheet as at 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and the consolidated results of its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

Moscow
24 May 2010

OPEN JOINT STOCK COMPANY “COMPANY M.VIDEO” AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2009
(in millions of Russian Rubles)

	Notes	31 December 2009	31 December 2008
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	6	6,074	5,917
Advances paid for property, plant and equipment		157	-
Intangible assets	7	474	335
Deferred tax assets	15	1,160	915
Forward exchange contract		-	388
Other assets		127	119
Total non-current assets		**7,992**	**7,674**
CURRENT ASSETS:			
Inventories	8	15,474	14,115
Trade accounts receivable		104	138
Other accounts receivable and prepaid expenses	9	1,067	2,043
VAT recoverable and other taxes receivable	10	1,159	1,489
Income tax receivable		34	54
Forward exchange contract		-	433
Short-term investments	11	-	1,624
Cash and cash equivalents	12	6,447	5,448
Other current assets		225	164
Total current assets		**24,510**	**25,508**
TOTAL ASSETS		**32,502**	**33,182**

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2009
(in millions of Russian Rubles)

	Notes	31 December 2009	31 December 2008
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	13	1,798	1,798
Additional paid-in capital		4,576	4,576
Retained earnings		2,385	1,615
Total equity		**8,759**	**7,989**
NON-CURRENT LIABILITIES:			
Long-term loans and borrowings	14	-	3,114
Deferred tax liabilities	15	288	446
Provisions	21	129	119
Total non-current liabilities		**417**	**3,679**
CURRENT LIABILITIES:			
Short-term loans and borrowings	16	-	3,943
Trade accounts payable	17	20,495	14,878
Other payables and accrued expenses	18	567	1,309
Advances received from customers		506	318
Income tax payable		321	263
Other taxes payable	19	132	138
Deferred revenue	20	1,094	505
Provisions	21	211	160
Total current liabilities		**23,326**	**21,514**
Total liabilities		**23,743**	**25,193**
TOTAL EQUITY AND LIABILITIES		**32,502**	**33,182**

The Notes on pages 10 to 51 form an integral part of these consolidated financial statements. The independent auditors' report is presented on pages 2-3.

Signed on behalf of the Board of Directors: 24 May 2010.

A. Tynkovan
Chief Executive Officer

C. Parks
Chief Financial Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

(in millions of Russian Rubles, except earnings per share)

	Notes	2009	2008
REVENUE	22	72,507	71,486
COST OF SALES	23	(54,147)	(53,610)
GROSS PROFIT		18,360	17,876
Selling, general and administrative expenses	24	(16,615)	(16,011)
Other operating income	25	536	1,001
Other operating expenses	26	(164)	(133)
OPERATING PROFIT		2,117	2,733
Finance costs, net	27	(794)	(365)
PROFIT BEFORE INCOME TAX EXPENSE		1,323	2,368
INCOME TAX EXPENSE	15	(540)	(1,112)
NET PROFIT FOR THE YEAR, being **TOTAL COMPREHENSIVE INCOME for the year**		**783**	**1,256**
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR BASIC AND DILUTED EARNINGS PER SHARE (in millions)		180	180
BASIC AND DILUTED EARNINGS PER SHARE (in Russian Rubles)		4.35	6.98

The Notes on pages 10 to 51 form an integral part of these consolidated financial statements. The independent auditors' report is presented on pages 2-3.

Signed on behalf of the Board of Directors: 24 May 2010.

A. Tynkovan
Chief Executive Officer

C. Parks
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009
(In millions of Russian Rubles)

	Notes	Share capital	Additional paid-in capital	Retained earnings	Total
Balance as at 31 December 2007		**1,798**	**4,576**	**265**	**6,639**
Recognition of share-based payment for ordinary shares previously issued	28	-	-	87	**87**
Reversal of related income tax previously recognized in equity	15	-	-	7	**7**
Total comprehensive income for the year		-	-	1,256	**1,256**
Balance as at 31 December 2008		**1,798**	**4,576**	**1,615**	**7,989**
Recognition of share-based payment for ordinary shares previously issued	28	-	-	28	**28**
Tax on dividends distributed by the Group’s subsidiaries to the parent company	15	-	-	(41)	**(41)**
Total comprehensive income for the year		-	-	783	**783**
Balance as at 31 December 2009		**1,798**	**4,576**	**2,385**	**8,759**

The Notes on pages 10 to 51 form an integral part of these consolidated financial statements. The independent auditors’ report is presented on pages 2-3.

Signed on behalf of the Board of Directors: 24 May 2010.

A. Tynkovan
Chief Executive Officer

C. Parks
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009
(In millions of Russian Rubles)

	Notes	2009	2008
OPERATING ACTIVITIES:			
Total comprehensive income for the year		783	1,256
Adjustments for:			
Income tax expense recognized in statement of comprehensive income	15	540	1,112
Interest expense on bank loans	27	368	631
Interest income	27	(65)	(226)
Coupon yield expense on corporate bonds	27	-	10
Loss on sale or disposal of property, plant and equipment	6	10	2
Depreciation, amortization and impairment loss	6,7,24	1,127	863
Net foreign exchange loss	25,27	188	734
Change in allowance for doubtful trade accounts receivable		(2)	-
Share-based payment	28	28	87
Reversal of allowance for doubtful notes receivable		(14)	(12)
Accrual of allowance for doubtful advances paid	9	34	90
Change in fair value of forward contracts	25,27	279	(937)
Change in allowance for goods returns		(5)	5
Change in allowance for obsolete and slow-moving inventories	8,23	138	531
Inventory losses	23	302	711
Operating cash flows before movements in working capital		**3,711**	**4,857**
Increase in inventories		(1,806)	(5,180)
Decrease/(increase) in trade accounts receivable		45	(58)
Decrease/(increase) in other accounts receivable and prepaid expenses		942	(453)
Increase in other current assets		(4)	(13)
Decrease in VAT recoverable and other taxes receivable		330	101
Increase in trade accounts payable		5,621	5,462
(Decrease)/increase in other payables and accrued expenses		(779)	867
Increase in advances received from customers		187	25
(Decrease)/increase in warranty provision		(3)	5
(Decrease)/increase in other taxes payable		(6)	40
Increase in deferred revenue		589	200
Cash generated by operations		**8,827**	**5,853**
Income tax paid		(905)	(1,254)
Interest paid		(352)	(629)
Forward contracts settlement		542	132
Net cash generated by operating activities		**8,112**	**4,102**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009
(In millions of Russian Rubles)

	2009	2008
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,201)	(2,535)
Short-term investments with banks	-	(4,834)
Proceeds from settlement of short-term investments	1,772	4,766
(Increase)/decrease in advances paid for property, plant and equipment	(157)	42
Purchases of intangible assets	(232)	(334)
Receipts from settlements of loans and notes receivable	-	29
Interest received	49	304
Net cash generated by/(used in) investing activities	**231**	**(2,562)**
FINANCING ACTIVITIES:		
Proceeds from long-term borrowings	1,290	2,880
Proceeds from short-term borrowings	6,827	18,419
Repayment of borrowings	(15,621)	(19,833)
Bonds repaid	-	(119)
Net cash (used in)/generated by financing activities	**(7,504)**	**1,347**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**839**	**2,887**
Net foreign exchange difference	160	181
CASH AND CASH EQUIVALENTS at the beginning of the year	**5,448**	**2,380**
CASH AND CASH EQUIVALENTS at the end of the year	**6,447**	**5,448**

Refer to Notes 6, 9 and 28 for details of non-cash transactions.

The Notes on pages 10 to 51 form an integral part of these consolidated financial statements. The independent auditors' report is presented on pages 2-3.

Signed on behalf of the Board of Directors: 24 May 2010.

A. Tynkovan
Chief Executive Officer

C. Parks
Chief Financial Officer

In millions of Russian Rubles

1. GENERAL INFORMATION

The consolidated financial statements of OJSC “Company M.video” (the “Company”) and subsidiaries (the “Group”) for the year ended 31 December 2009 were authorized for issue in accordance with a resolution of the Board of Directors on 24 May 2010.

The Company and its subsidiaries (see the table below) are incorporated in the Russian Federation. The Company is registered at: 40/12, building 20, Nizhnaya Krasnoselskaya Street, Moscow, 105066, Russian Federation. Following the initial public offering in November 2007, the Company’s ordinary shares were admitted to trading on RTS and MICEX stock exchanges in the Russian Federation.

LLC “Company M.video” was incorporated on 3 December 2003. On 25 September 2006 the Company was reorganized from a Limited Liability Company to an Open Joint Stock Company.

The Group is the operator of a chain of consumer electronic stores operating in the Russian Federation. The Group specializes in the sale of TV, audio, video, Hi-Fi, home appliances and digital equipment, as well as related services. The Group comprises a chain of owned and leased stores (177 stores as at 31 December 2009; 157 stores as at 31 December 2008) and two online internet stores that sell to end users. In 2009 the Group also operated in wholesale sector, which comprised of sales to other retailers.

The accompanying consolidated financial statements include assets, liabilities and result of operations of the Company and the following of its subsidiaries as at 31 December 2009 and 2008:

Name of subsidiary	Nature of business	Proportion of ownership interest and voting power held, % 2009	Proportion of ownership interest and voting power held, % 2008
LLC “M.video Management”	Trading	100	100
LLC “M.video Torg”	Equipment	100	100
LLC “M.video Trade”	Trading	100	100
LLC “Sphera Invest”	Real estate	100	100
LLC “Standard Invest”	Real estate	100	100
LLC “M.video Finance”	Finance	100	100

Shareholders

As at 31 December 2009 and 2008 the registered shareholders of OJSC “Company M.video” and their respective ownership and voting interests were as follows:

	2009	2008
Svece Limited	69.9626%	69.9626%
M.video Holding (Cyprus) Limited	0.5884%	0.7405%
Various shareholders	29.4490%	29.2969%
Total	**100%**	**100%**

Ultimate Shareholders

M.video Investment Ltd. (BVI), a company incorporated in the British Virgin Islands controls 100% of the voting and ordinary shares of M.video Holding (Cyprus) Limited and Svece Limited (a company incorporated in Cyprus), and is the ultimate parent entity of the Company.

Mr. Alexander Tynkovan, a citizen of the Russian Federation, has a controlling interest in M.video Investment Ltd. (BVI).

2. BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of Accounting

The consolidated financial statements have been prepared on a historical cost basis except for the valuation of financial instruments in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") and valuation of items of property, plant and equipment measured at fair value which was used as deemed cost of the property, plant and equipment as at the date of transition to IFRS. The Group transitioned to IFRS on 1 January 2006.

All companies within the Group maintain their accounting records in accordance with Russian Accounting Standards ("RAS"). RAS differ substantially from those standards generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared based on the Russian statutory accounting records, reflect those adjustments necessary for such consolidated financial statements to be presented in accordance with IFRS.

Functional and presentation currency – The consolidated financial statements are presented in Russian Rubles ("RUB"), which is the Company's functional and presentation currency. Functional currency for each Group company has been determined as the currency of the primary economic environment in which the company operates.

Adoption of the new standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except as discussed below.

The Group has adopted the following new and amended International Accounting Standards ("IAS"), International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB in these annual consolidated financial statements:

- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements" – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate;
- Amendment to IFRS 2 "Share-Based Payment" – Vesting Conditions and Cancellations;
- Amendment to IFRS 7 "Financial Instruments: Disclosures";
- IFRS 8 "Operating Segments";
- IAS 1 "Presentation of Financial Statements'' (as revised in 2007);
- Amendment to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation;
- IFRIC 15 "Agreement for the Construction of Real Estate";
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation";
- Improvements to IFRSs (May 2008).

Except as described below the adoption of these standards and interpretations have not had and is not expected to have an impact on the consolidated financial statements of the Group:

2. BASIS OF PREPARATION (CONTINUED)

Amendment to IFRS 7 “Financial Instruments: Disclosures”

These amendments were issued in March 2009 and are applicable to annual periods beginning on or after 1 January 2009. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The required disclosures in respect of fair value measurements and liquidity risk are not significantly impacted by the amendments and are presented in Note 32. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

IFRS 8 “Operating Segments”

The Group has adopted IFRS 8 “Operating Segments” (“IFRS 8”) with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor standard (IAS 14 “Segment Reporting”) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity’s ‘system of internal financial reporting to key management personnel’ serving only as the starting point for the identification of such segments. As a result of the adoption of IFRS 8, management has reviewed the segment information reported externally in the prior years and determined that the existing identification of the Group’s reportable segments complies with IFRS 8 principles. Thus the adoption of IFRS 8 by the Group has not resulted in a change in reportable segments previously disclosed by the Group.

IAS 1 “Presentation of Financial Statements” (as revised in 2007)

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity are presented in a reconciliation of each component of equity. In addition, the standard introduces a statement of comprehensive income: it presents all items of income and expense recognised in the income statement, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation – The consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group transactions, balances, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full on consolidation.

Operating segments – Segment reporting is presented on the basis of management’s perspective and relates to the parts of the Group that are defined as operating segments. Operating segments are identified on the basis of internal reports to the Group’s chief operating decision maker (“CODM”). These internal reports are prepared on the same basis as these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Based on the current management structure, the Group has identified two operating segments: sales of consumer electronics through the chain of retail stores and internet sales of consumer electronics. For the purposes of these consolidated financial statements these operating segments have been aggregated into one reportable segment as both operating segments exhibit similar long-term economic characteristics, sell similar products, use similar technologies to deliver those products, and sell products and services to similar classes of customers.

Going concern – These consolidated financial statements are prepared on the going concern basis.

Foreign currencies – The individual financial statements of each Group's entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the exchange rate prevailing on the date when the most recent fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise. Exchange differences arising on loans and borrowings are reported as part of finance cost, while exchange differences related to operating items are included into other operating income and expenses.

Property, plant and equipment – Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Deemed cost of the items of property, plant and equipment existing as at 1 January 2006, the date of transition to IFRS was determined on the basis of fair values determined by independent appraisers as allowed by the provisions of IFRS 1. Fair value of properties was determined with reference to market prices, while fair value of the other items, including the Group's trade equipment, was predominantly based on the estimates of depreciated replacement costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Major replacements or modernizations of property, plant and equipment are capitalized and depreciated over their estimated useful lives. All other repair and maintenance expenditure is recognised in profit and loss during the financial period in which it is incurred.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight line method, on the following bases:

Buildings	20-30 years
Leasehold improvements	2-7 years
Trade equipment	5 years
Security equipment	3 years
Other fixed assets	3-5 years

For leasehold improvements the depreciation period includes the period when the Group has the possibility to extend the period of the lease, taking into account the legal provisions relating to lease terms, and its intention to seek a long term presence in the various retail locations in which it operates. This is relevant for leases of retail space which, on a portfolio basis, have a history of successful renewal. All other leasehold improvements are depreciated over the shorter of useful life or the related lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trade equipment is depreciated over the estimated useful life specified above unless there is a plan to fully renovate the store prior to reaching the predetermined estimated useful life. In this situation, the net book value of trade equipment will be depreciated over the remaining estimated useful life being the period of time up to the planned renovation works.

The assets' residual value and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. Where there are indicators that an asset's or cash generating unit's carrying amount is greater than its estimated recoverable amount, it is written down to its recoverable amount.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income.

Construction in progress comprises the cost of equipment in the process of installation and other costs directly relating to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are ready for their intended use.

Intangible assets – Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over estimated useful lives of these intangible assets. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The estimated useful lives per class of intangible assets are as follows:

Software licenses	5-10 years
Trademarks	5-10 years

Impairment of tangible and intangible assets – At each balance sheet date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. For tangible and intangible assets the CGU is deemed to be each group of stores located in one city. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Taxation – Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are not recognized for taxable temporary differences associated with investments in subsidiaries as the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to be reversed in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in the consolidated statement of comprehensive income, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over cost.

Fair value – The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investment where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arms length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

Financial assets – Investments are recognized and derecognized on a trade date, where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity investments', 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets as at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial instruments: recognition and measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets as at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 3 above.

Held-to-maturity investments

Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield method. For the periods covered by the accompanying consolidated financial statements, the Group did not hold any investments in this category.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method less any impairment and bad debts.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Available for sale financial assets

Available for sale ("AFS") financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories. After initial measurement, available for sale financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity in the net unrealized gains reserve. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the statement of comprehensive income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the statement of comprehensive income as 'Dividends received' when the right or payment have been established.

For available for sale investments for which there is no reliable market information to determine fair value, the investments are carried at cost.

Impairment of financial assets

Financial assets, other than those as at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade accounts receivable where the carrying amount is reduced through the use of an allowance account. When a trade accounts receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded as the proceeds received, net of direct issue costs.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out below.

Financial liabilities

Financial liabilities are classified as either financial liabilities as at FVTPL or other financial liabilities.

Financial liabilities as at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial instruments: recognition and measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities as at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 3 above.

<u>Other financial liabilities</u>

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

<u>Derecognition of financial liabilities</u>

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Share-based payments – Equity-settled share based payments to employees are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 28.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss over the remaining vesting period with a corresponding adjustment to retained earnings.

Derivative financial instruments – The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk on its foreign currency denominated debt, namely foreign exchange forward contracts. The Group does not use hedge accounting for these derivatives. As a result, such derivative financial instruments are treated as other financial assets and liabilities as at FVTPL. Gains and losses recognized for the changes in fair value of forward contracts are presented as part of finance costs or other operating expenses of the Group depending on whether its use is related to a financial item or an operating item.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Costs of an equity transaction – The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The amount of transaction costs accounted for as a deduction from equity in the period is disclosed separately. The related amount of income taxes recognized directly in equity is included in the aggregate amount of current and deferred income tax credited or charged to equity.

Value added tax – Value added tax (“VAT”) related to sales is payable to tax authorities on the earliest of (a) cash received from customers in advance or (b) transfer of the goods or rendering services to customers. Input VAT is generally recoverable against sales VAT upon receipt of the VAT invoice. Input VAT on construction in progress can be reclaimed on receipt of VAT invoices for the particular stage of work performed or, if the construction in progress project cannot be broken down into stages, on receipt of VAT invoices upon completion of the contracted work.

VAT is generally allowed to be settled on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date is recognized in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Inventories – Inventories are recorded at the lower of average cost or net realizable value. In-bound freight related costs from our suppliers are included as part of the net cost of merchandise inventories. Certain supplier bonuses that are not reimbursement of specific, incremental and identifiable costs to promote a supplier’s products are also included in the cost of inventory. Other costs associated with storing and transporting merchandise inventories to our retail stores are expensed as incurred and included as part of selling, general and administrative expenses.

Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents – Cash and cash equivalents comprise cash at banks, in transit and on hand in stores and short term deposits with an original maturity of three months or less, and credit card payments received within 24 hours.

Borrowing costs – The borrowing costs are capitalized by the Group as part of the cost of the asset when the costs are directly attributable to the acquisition, construction of a qualifying asset including construction in progress with a commencement date on or after 1 January 2008. The Group defines qualifying assets as leasehold improvements and other assets acquired in connection with the new store openings which generally take three months or longer to become operational. Other borrowing costs are expensed as incurred.

Provisions – Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Warranties

Warranties are generally covered by the brand owner directly or through their authorized agents in Russia.

When a supplier is unable to offer warranty services for their products in the Russian Federation, the Group makes a provision for warranty costs. These costs are recognized at the date of sale of the relevant products at management's best estimate of the expenditure required to settle the Group's obligations.

Revenue recognition – Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, discounts and value added tax. Inter-company revenue is eliminated. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be reliably measured;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group has two categories of goods for resale: retail and wholesale.

Retail revenue (excluding revenue from sale of additional service agreements) is recognized at the point of sale or when the delivery is complete, if later. Retail sales are transacted by either cash or credit card. The recognized revenue includes credit card fees payable for the transaction. Such costs are presented in operating expenses.

Starting from 2008 the Group operates a loyalty points program "M.video Bonus", which allows customers to accumulate points when they purchase goods in the Group's retail stores. The points can then be redeemed as a payment for merchandise, subject to a minimum number of points being obtained. Proceeds from sale to members of the loyalty program are allocated between the loyalty points and the other components of the sale. The consideration allocated to the loyalty points is measured by reference to their fair value, i.e. the amount for which the loyalty points could be sold separately. This amount is deferred and recognized as revenue when the points are redeemed. Expected breakage is recognized as revenue at the time of initial sale as it is excluded from the amount allocated to loyalty points.

Wholesale revenue is recognized when the customer has collected the goods from the warehouse or when goods are delivered and accepted at the customer's warehouse and after satisfying the criteria outlined above.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from services

Revenue from services is recognized in the period in which the services have been rendered and the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity;
- The stage of completion of the transaction at the balance sheet date can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Additional service agreements

Revenue from the sale of additional service agreements is recognized on an 'as earned' basis with the unearned portion (if any) spread over the remaining term of the contracts to reflect the costs the Group expects to incur in performance of its contractual obligations. The revenue is recognized in full when no further costs are expected to be incurred.

Costs directly associated with the sale of additional service agreements, such as sales bonuses paid to shop assistants, as well as commission paid to other parties to provide full or partial coverage of the Group's obligations under existing additional service agreements are recognized in the statement of comprehensive income on the same basis as related revenue.

Revenue from the sale of additional service agreements is disclosed within retail revenue.

Agents

The Group recognizes as revenue any sales performed as an agent at net amounts. Such fees include sales of telephone service contracts, service and installation fees.

Gift cards

The Group sells gift cards to its customers in its retail stores and through its website. The gift cards have an expiration date and are required to be used during specified periods of time. The Group recognizes income from gift cards when: (i) the gift card is redeemed by the customer; or (ii) when the gift cards expire.

Interest income

Revenue is recognized as interest is accrued (using the effective interest method). Interest income is included in the net finance cost in the consolidated statement of comprehensive income.

Supplier bonuses – The Group receives bonuses from suppliers. All supplier bonuses are treated as volume allowances unless they are subject to a separate agreement which is specific, incremental and identifiable. Supplier bonuses which are earned by achieving certain volume purchases are recorded when it is reasonably assured the Group will reach these volumes. Supplier bonuses based on volume are recorded as a reduction of the carrying cost of the inventory to which they relate. Supplier bonuses provided as a reimbursement of specific, incremental and identifiable costs incurred to promote a supplier's products are included as an expense (or asset cost) reduction when the cost is incurred.

Leases – The Group has not entered into any finance leases, although it does have a significant number of operating leases.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating lease payments are recognized as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred. The impact of lease escalation clauses are recognized in expenses in the period in which they are activated.

Any benefits received from the landlord as an incentive to enter into an operating lease are spread over the lease term on a straight line basis. Sublease income and lease expenses are presented on the net basis.

Pre-opening expenses – Expenses incurred in the process of opening new stores which do not meet capitalization criteria under IAS 16 "Property, plant and equipment" are expensed as incurred. Such expenses include rent, utilities and other operating expenses.

Employee benefits – The Group contributes to the Russian Federation state pension, medical and social insurance on behalf of all its current employees by paying unified social tax ("UST"). Any related expenses are recognized in the consolidated statement of comprehensive income as they become due. The Group does not operate any employer sponsored pension plans.

Dividends – Dividends are recognized as a liability in the period in which they have been declared by the shareholders in a general meeting and become legally payable.

4. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

The following new or revised standards and interpretations issued by IASB and IFRIC have been published at the date of authorization of the Group's consolidated financial statements for the year ended 31 December 2009, but are not yet effective:

- IFRS 2 "Share-Based Payment" – Group Cash-settled Share-based Payment Transactions;
- IFRS 3 "Business Combinations" (as revised in 2008), IAS 27 "Consolidated and Separate Financial Statements" (as revised in 2008) and IAS 28 "Investments in Associates" (as revised in 2008);
- IFRS 9 "Financial Instruments";
- IAS 24 "Related Party Disclosures" (as revised in 2009);
- Amendment to IAS 32 "Financial Instruments: Presentation" – Classification of Rights Issues;
- IFRIC 9 "Reassessment of Embedded Derivatives" and Amendment to IAS 39 "Financial Instruments: Recognition and Measurement";
- IFRIC 17 "Distribution of Non-Cash Assets to Owners";
- IFRIC 18 "Transfers of Assets from Customers";
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments";
- Improvements to IFRSs (2009);
- Improvements to IFRSs (2010).

IFRS 2 "Share-Based Payment" – Group Cash-settled Share-based Payment Transactions

The IASB issued an amendment to IFRS 2 in June 2009; it becomes effective for financial years beginning on or after 1 January 2010. The amendment introduces changes in the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment will not have an impact of the financial position or performance of the Group as no events occurred to which this amendment relates to.

4. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED (CONTINUED)

IFRS 3 “Business Combinations” (as revised in 2008), IAS 27 “Consolidated and Separate Financial Statements” (as revised in 2008) and IAS 28 “Investments in Associates” (as revised in 2008)

The Revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 “Statement of Cash Flows”, IAS 12 “Income Taxes”, IAS 21 “The Effect of Changes in Foreign Exchange Rates”, IAS 28 “Investment in Associates”, and IAS 31 “Interests in Joint Ventures”. The changes in IFRS 3 (Revised) and IAS 27 (Revised) will affect future acquisitions or loss of control and transactions with minority interests. Management anticipates that the standards will have no effect on the Group’s reported income or net assets on adoption.

IFRS 9 “Financial Instruments”

The standard was issued in November 2009 and becomes effective for annual periods beginning on or after 1 January 2013, earlier application is permitted. The new standard provides a classification of financial assets which determines whether a financial asset is measured at amortised cost or at fair value, based on how an entity manages its financial assets and the contractual cash flow characteristics of the financial assets. The Group is currently assessing the impact of the new standard on its financial statements.

IAS 24 “Related Party Disclosures” (as revised in 2009)

In November 2009 the IASB issued the revised IAS 24, which shall be applied for annual periods beginning on or after 1 January 2011. The revised standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Group is currently assessing the impact of the amended standard on disclosures in its consolidated financial statements.

Amendment to IAS 32 “Financial Instruments: Presentation” – Classification of Rights Issues

In October 2009 the IASB issued the amendment to IAS 32, it becomes effective for financial years beginning on or after 1 February 2010. The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. The amendment requires that provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The Group is currently assessing the impact of the amended standard on disclosures in its consolidated financial statements.

IFRIC 9 “Reassessment of Embedded Derivatives” and Amendment to IAS 39 “Financial Instruments: Recognition and Measurement”

In 2009 the IASB issued the amendment to IFRIC 9, it becomes effective for financial years beginning on or after 30 June 2009.This amendment requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument remain classified as at fair value through profit or loss. Management anticipates that the adoption of this amendment will not have an impact on the consolidated financial position or performance of the Group.

4. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED (CONTINUED)

IFRIC 17 "Distribution of Non-Cash Assets to Owners"

The IFRIC was issued in November 2008 and shall be applied prospectively for financial years beginning on or after 1 July 2009. The IFRIC clarifies when and how distribution of non-cash assets as dividends to the owners should be recognized. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not expected to have any impact on the Group's consolidated financial statements.

IFRIC 18 "Transfers of Assets from Customers"

The IFRIC was issued in January 2009 and shall be applied for financial years beginning on or after 1 July 2009. The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's consolidated financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

The IFRIC was issued in November 2009 and shall be applied for annual periods beginning on or after 1 July 2010. The interpretation clarifies the requirements of International Financial Reporting Standards (IFRSs) when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. IFRIC 19 is not expected to have any impact on the Group's financial statements.

Improvements to IFRSs

In April 2009 and May 2010 IASB issued further amendments to some of the standards and interpretations, primarily with a view to removing inconsistencies and clarifying wording. These amendments cover a number of standards and interpretations issued by IASB and IFRIC and become effective in future annual periods.

Management anticipates that once adopted these amendments will have no significant effect on the Group's consolidated financial statements.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION OF UNCERTAINTY

In the application of the Group's accounting policies, which have been described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, including, but not limited to, the uncertainties and ambiguities of the Russian legal and taxation systems and the difficulties in securing contractual rights as defined in contracts. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION OF UNCERTAINTY (CONTINUED)

Significant estimates and assumptions

Inventory valuation

Management reviews the inventory balances to determine if inventories can be sold at amounts greater than or equal to their carrying amounts plus costs to sell. This review includes identification of slow moving inventories, obsolete inventories and partially or fully damaged inventories. The identification process includes historical performance of the inventory, current operational plans for the inventory as well as industry and customer specific trends. Damaged stock is either provided for or written off depending on the extent of damage. Management makes a provision allowance for any items considered to be obsolete. The allowance represents the difference between the cost of inventory and its estimated net realizable value.

The net realizable value allowance is calculated using the following methodology:

(a) Stock held for resale – comparison of expected selling price versus the carrying value on a stock keeping unit basis;
(b) Damaged goods – examination of historical data relating to discounts associated with damaged goods and comparison to book value at the balance sheet date;
(c) Stock held at service centers – an allowance is applied based on management estimate of the carrying value of the inventory;
(d) Additional allowance is accrued for if there is actual evidence of a decline in selling prices after the end of the reporting period to the extent that such decline confirms conditions existing at the end of the period.

If actual results differ from management's expectations with respect to the selling of inventories at amounts equal to or less than their carrying amounts, management would be required to adjust the carrying amount of inventories.

Tax and customs provisions and contingencies

The Group is subject to various taxes arising in the Russian Federation. The majority of its merchandise is imported into Russia and is therefore subject to the Russian customs regulations. Significant judgment is required in determining the provision for income taxes and other taxes. The Group recognizes liabilities for anticipated tax issues based on estimates of whether it is probable additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provision in the period in which such determination is made.

The Group obtains various types of supplier bonuses. Current Russian tax legislation is unclear if the amount of VAT refund relating to goods purchased should be decrease by the amount of VAT on such allowances. The Group believes that its interpretation of the current tax legislation is appropriate and no additional tax liabilities arise in respect of supplier bonuses. Further Group position on this matter will depend on the court practice and amendments of the legislation related to bonuses from suppliers.

Recovery of deferred tax assets

Deferred tax assets are recognized for deductible temporary differences as management believes there will be sufficient future taxable profits to utilize those temporary differences.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION OF UNCERTAINTY (CONTINUED)

Share-based payments

The cost of equity-settled transactions with employees is based on the Group's estimate of the number of equity instruments that will eventually vest and other estimates outlined in Note 28.

Useful life of property, plant and equipment

Trade equipment is depreciated over the estimated useful life specified in Note 3 above. The estimated useful life is adjusted when there is a plan to fully renovate the store in the near future, in which case carrying value of related trade equipment is depreciated over the period of time up to the planned renovation work.

Impairment of property, plant and equipment and intangible assets

The determination of impairment of property, plant and equipment involves the use of estimates that include, but are not limited, to the cause, timing and amount of impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increase of cost of capital, changes in the future availability of financing, technological obsolescence, current replacement cost and other changes in the circumstances that indicate that impairment exists. The determination of the recoverable amount of CGU involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methods used are described in Note 6.

Revenue attributed to loyalty program points

The Group estimates the fair value of points awarded under M.video Bonus loyalty program by applying "bonus ruble conversion rate" so that part of consideration allocated to the award credits represents their purchase capacity. Management also makes assumption about expected redemption rates. Points issued under the program expire with the passage of time; therefore such estimates are subject to significant uncertainty as at balance sheet date.

Critical judgments in applying the entity's accounting policies

Recognition of revenue from sale of additional service agreements and associated costs

Revenue earned from the sale of additional service agreements is recognized on an 'as earned' basis with the unearned portion (if any) spread over the remaining term of the contracts to reflect the costs the Group expects to incur in performance of its contractual obligations.

With respect to sale of additional service agreements the Group operates under agreement concluded with a related party services provider which assumed substantially all of the Group's obligations under all of the existing and future additional service agreements for a consideration based on a fixed proportion of fees charged to customers.

The fixed commission paid to a related party service centre to provide coverage for the Group's obligations under the additional service agreements is recognized immediately as part of cost of sales. Other direct costs associated with the sale of additional service agreements, such as sales bonuses paid to shop assistants are disclosed as part of selling, general and administrative expenses.

Supplier bonuses

The Group receives various types of bonuses from suppliers in the form of volume discounts and promotional, advertising and stocking fees. Management has concluded that substantially all supplier bonuses received or receivable by the Group should be treated as volume based, effectively reducing the cost of goods purchase from the suppliers, rather than a reimbursement of specific costs incurred by the Group.

In millions of Russian Rubles

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at 31 December 2009 and 2008 consisted of the following:

	Buildings	Leasehold improve-ments	Construc-tion in progress	Trade equipment	Security equipment	Other	Total
Cost							
As at 31 December 2007	2,288	1,314	6	601	319	688	5,216
Additions	-	-	2,322	-	-	-	2,322
Transfers	694	838	(2,270)	220	133	385	-
Disposals	-	-	-	(22)	(4)	(10)	(36)
As at 31 December 2008	**2,982**	**2,152**	**58**	**799**	**448**	**1,063**	**7,502**
Additions	-	-	1,201	-	-	-	1,201
Transfers	273	397	(1,231)	130	120	311	-
Disposals	-	(15)	(2)	(78)	(20)	(47)	(162)
As at 31 December 2009	**3,255**	**2,534**	**26**	**851**	**548**	**1,327**	**8,541**
Accumulated depreciation and impairment loss							
As at 31 December 2007	121	133	-	190	137	217	798
Charge for the year	123	196	-	154	105	208	786
Disposals	-	-	-	(21)	(4)	(9)	(34)
Impairment loss	-	26	-	3	2	4	35
As at 31 December 2008	**244**	**355**	**-**	**326**	**240**	**420**	**1,585**
Charge for the year	155	323	-	154	122	284	1,038
Disposals	-	(15)	-	(73)	(19)	(45)	(152)
(Reversal)/recognition of impairment loss, net	-	(8)	-	1	-	3	(4)
As at 31 December 2009	**399**	**655**	**-**	**408**	**343**	**662**	**2,467**
Net book value							
As at 31 December 2008	**2,738**	**1,797**	**58**	**473**	**208**	**643**	**5,917**
As at 31 December 2009	**2,856**	**1,879**	**26**	**443**	**205**	**665**	**6,074**

As at 31 December 2009 and 2008 there were no commitments for the acquisition of property, plant and equipment.

During the year 2009 the borrowing costs of 16 million RUB (2008: 8 million RUB) were capitalized as part of the cost of the Group's property, plant and equipment.

Depreciation expenses and impairment loss have been included in "Selling, general and administrative expenses" (Note 24).

Impairment of property, plant and equipment

Due to the deterioration in the economic situation in the Russian Federation as a result of the recent turmoil in global capital and credit markets there have been certain indicators which required the Group to review its non-current assets for impairment at the balance sheet date. The Group performed an impairment test for all CGUs representing each city in which the Group's stores are located. The recoverable amount of the CGUs has been determined based on value in use calculation using cash flow projections based on financial budgets approved by the Board of Directors for the next year and projected growth rates for next four years with reference to gross regional domestic product for the regions where the Group operates and expected inflation for the Group's merchandise. These growth rates are ranging from 4% to 8% and the expected long-term inflation is 5%. Cash flows beyond the five – year period were extrapolated using a long-term growth rate of 5%.

The pre-tax discount rate used in calculations for 2009 FY was 19.40% (21.56% in 2008). It is based on the Group's weighted average cost of capital and reflects management's estimates of the risks associated with the investments into the Group. In determining appropriate discount rate regard has been given to published analyst research with respect to the Group.

In millions of Russian Rubles

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In accordance with IAS 36 "Impairment of Assets" the recoverable amount of each individual CGU was compared with its carrying amount. No significant impairment loss has been recognized by the Group as a result of such review.

The management has concluded there are no reasonably possible changes in key assumptions which would cause the carrying amount of the Group's assets to materially exceed its value in use.

7. INTANGIBLE ASSETS

Intangible assets as at 31 December 2009 and 2008 consisted of the following:

	Software licenses	Trade marks	Total
Cost			
As at 31 December 2007	65	1	66
Additions	323	11	334
As at 31 December 2008	388	12	400
Additions	232	-	232
As at 31 December 2009	**620**	**12**	**632**
Accumulated amortization			
As at 31 December 2007	23	-	23
Charge for the year	41	1	42
As at 31 December 2008	64	1	65
Charge for the year	92	1	93
As at 31 December 2009	**156**	**2**	**158**
Net book value			
As at 31 December 2008	**324**	**11**	**335**
As at 31 December 2009	**464**	**10**	**474**

During 2009 the Group incurred expenditures in the total amount of 232 million RUB (2008: 334 million RUB) which for the most part related to the implementation of additional functionality of the Group's ERP system SAP SCM.

Amortization expense has been included in "Selling, general and administrative expenses" (Note 24).

As at 31 December 2009 and 2008 the Group had commitments for the acquisition of software licenses. Refer to Note 31 for further details.

8. INVENTORIES

Inventories as at 31 December 2009 and 2008 consisted of the following:

	2009	2008
Goods for resale	17,110	15,544
Other inventories	10	79
Less: allowance for obsolete and slow-moving inventories	(1,646)	(1,508)
Total	**15,474**	**14,115**

For information relating to the cost of inventory recognized as an expense during the year ended 31 December 2009 and 2008 refer to Note 23. As at 31 December 2009 the Group had no inventory pledged as collateral for Group's borrowings or other liabilities (31 December 2008: 10,063 million RUB, refer to Notes 14, 16, 18).

In millions of Russian Rubles

9. OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

Other accounts receivable and prepaid expenses as at 31 December 2009 and 2008 consisted of the following:

	2009	2008
Advances paid to suppliers and prepaid expenses	954	1,870
Other accounts receivable from third parties	197	209
Advances paid to related parties	36	54
Less: allowance for doubtful accounts	(120)	(90)
Total	**1,067**	**2,043**

For details relating to other accounts receivable from related parties refer to Note 29.

As at 31 December 2009 the Group had no past due but not impaired other accounts receivable from third parties (31 December 2008: nil).

Movement in the allowance for doubtful other accounts receivable is as follows:

	2009	2008
Balance at the beginning of the year	90	36
Impairment losses recognized on other accounts receivables	50	90
Amounts written off as uncollectible	(4)	(36)
Amounts recovered during the year	(16)	-
Balance at the end of the year	**120**	**90**

Change in other accounts receivable and prepaid expenses includes non-cash transaction in the amount of 4 million RUB related to derecognition of receivables against previously recognized allowance (2008: 36 million RUB).

The other accounts receivable impaired as at 31 December 2009 were aged 120+ days (31 December 2008: 120+ days).

Carrying value of other accounts receivable approximates their fair value.

10. VAT RECOVERABLE AND OTHER TAXES RECEIVABLE

VAT recoverable and other taxes receivable as at 31 December 2009 and 2008 consisted of the following:

	2009	2008
VAT recoverable	1,159	1,484
Other taxes receivable	-	5
Total	**1,159**	**1,489**

In millions of Russian Rubles

11. SHORT-TERM INVESTMENTS

Short-term investments as at 31 December 2009 and 2008 consisted of the following:

	Interest rate	Maturity	2009	2008
Short-term deposit in bank	8.5%	March 2009	-	1,140
Short-term deposit in bank	4%	March 2009	-	323
Short-term deposit in bank	8.2%	February 2009	-	161
Total short-term deposits in banks			**-**	**1,624**

As at 31 December 2009 the Group had no short-term deposits in banks that should be classified other than cash and cash equivalents (refer to Note 12). Short-term deposits included in short-term investments as at 31 December 2008 were denominated in EUR. In 2009 the Group recognized foreign currency income of 148 million RUB representing an exchange difference arising from short-term bank deposits denominated in the currencies other than RUB (2008: 266 million RUB).

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2009 and 2008 consisted of the following:

	2009	2008
Short-term deposits	4,848	4,111
Cash at banks	786	660
Cash in transit	644	529
Petty cash and cash in stores	169	148
Total	**6,447**	**5,448**

As at 31 December 2009 and 2008 the fair value of cash and cash equivalents equals to their carrying value.

Cash in transit represents cash collected from the Group's stores and not yet deposited into the bank account at the year end. Short-term deposits earn interest ranging from 4.5% to 11.5% per annum (2008: from 0.1% to 7% per annum).

In millions of Russian Rubles

13. SHARE CAPITAL

Authorized and issued capital comprised of the following number of ordinary shares each having par value of 10 RUB per share:

	Issued ordinary shares	Authorized ordinary shares
As at 1 January 2008	179,768,227	209,768,227
As at 31 December 2008	179,768,227	209,768,227
As at 31 December 2009	**179,768,227**	**209,768,227**

During the years 2009 and 2008 there were no changes in the number of authorized and issued ordinary shares of the Company. All issued ordinary shares were fully paid.

Dividends

No dividends have been paid or declared by the Company during the years ended 31 December 2009 and 2008. In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Company from accumulated undistributed and unreserved earnings as shown in the Company's Russian statutory financial statements. OJSC "Company M.video" had 611 million RUB (unaudited) of undistributed and unreserved earnings as at 31 December 2009 (31 December 2008: 154 million RUB, unaudited).

14. LONG-TERM LOANS AND BORROWINGS

Long-term loans and borrowings as at 31 December 2009 and 2008 consisted of the following:

	Interest rate	Maturity	2009	2008
Secured third parties loan from bank (EUR)	11.25%	March 2010	-	2,114
Secured third parties loan from bank (RUB)	13.75%	March 2010	-	1,000
Total			**-**	**3,114**

In 2009 the Group repaid all of its long-term bank loans carried as at 31 December 2008 ahead of their maturity dates.

In millions of Russian Rubles

15. INCOME TAX

The Group's income tax expense for the years ended 31 December 2009 and 2008 was as follows:

	2009	2008
Current tax expense	(943)	(1,358)
Deferred tax benefit	403	246
Total income tax expense	**(540)**	**(1,112)**
Current income tax recognized in equity	(41)	7

The tax effect on the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2009 and 2008 is presented below:

	2009	2008
Deferred tax assets		
Supplier bonuses allocated to inventories	333	225
Allowance for obsolete and slow-moving inventories	329	301
Deferred revenue	219	101
Difference in depreciable value of property, plant and equipment	126	58
Salary-related accruals	47	54
Accrued expenses	27	71
Allowance for doubtful debts	27	22
Accrual for unused vacation	19	23
Adjustment on unrealized profit	2	22
Other items	31	38
Total	**1,160**	**915**
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	276	214
Forward exchange contracts	-	164
Difference in intangible assets	-	63
Other items	12	5
Total	**288**	**446**

The statutory tax rate effective in the Russian Federation during 2008 was 24%. According to Federal Law No. 224-FZ dated 26 November 2008 the changes were made to the Tax Code of the Russian Federation and corporate profit tax rate was reduced to 20% effective from 1 January 2009.
As at 31 December 2009 and 2008 the Group measured deferred tax liabilities and deferred tax assets using tax rate 20%, which is the rate expected to be applied in the period in which the liability is settled or the asset is realized.

In millions of Russian Rubles

15. INCOME TAX (CONTINUED)

The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the net profit before income tax. Below is a reconciliation of theoretical income tax expense at the statutory rate of 20% (31 December 2008: 24%) to the actual expense recorded in the Group's consolidated statement of comprehensive income:

	2009	2008
Profit before income tax expense	1,323	2,368
Theoretical income tax expense at statutory rate of 20% (2008: 24%)	(265)	(568)
Adjustments due to:		
Losses due to inventory shortages	(26)	(280)
Other non-deductible expenses, net	(215)	(170)
Income tax provisions (Note 31)	(34)	-
Reduction in tax rate (from 24% to 20%)	-	(94)
Income tax expense	**(540)**	**(1,112)**

Taxable temporary differences in relation to investments in subsidiaries for which deferred tax liabilities have not been recognized as at 31 December 2009 amounted to 98 million RUB (31 December 2008: 479 million RUB). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

16. SHORT-TERM LOANS AND BORROWINGS

Short-term loans and borrowings as at 31 December 2009 and 2008 consisted of the following:

	Interest rate	2009	2008
Secured third parties credit facilities (EUR)	2.74% + EURIBOR (3m)	-	1,624
Secured third parties credit facilities (EUR)	3.1% + EURIBOR (1m)	-	1,242
Secured third parties credit facilities (EUR)	9.5%	-	622
Secured third parties credit facilities (USD)	5% + USD LIBOR (3m)	-	441
Total principal amount of short-term loans		-	**3,929**
Interest payable		-	14
Total		**-**	**3,943**

17. TRADE ACCOUNTS PAYABLE

Trade accounts payable as at 31 December 2009 and 2008 consisted of the following:

	2009	2008
Trade accounts payable to third parties	20,436	14,816
Trade accounts payable to related parties	59	62
Total	**20,495**	**14,878**

Trade accounts payable are non-interest bearing and are normally settled between 30 and 90 days, depending on individual supplier terms.

For terms and conditions relating to related party payables refer to Note 29.

In millions of Russian Rubles

18. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as at 31 December 2009 and 2008 consisted of the following:

	2009	2008
Accrued salaries and bonuses	294	311
Accrued unused vacation	94	113
Accrued rent and utilities	43	120
Accrued consulting fees	29	74
Other current liabilities to related parties	10	32
Letters of credit payable	-	508
Other payables and accrued expenses	97	151
Total	**567**	**1,309**

As at 31 December 2009 the Group had no letters of credit payable. As at 31 December 2008 the Group carried letters of credit payable to Uralsib bank issued by order of the Group for the benefit of suppliers of certain parcels of goods. Annual interest rate for these liabilities was 1.75%. Letters of credit payable were secured by the Group's inventories in amount of 3,661 million RUB (refer to Note 8).

19. OTHER TAXES PAYABLE

Other taxes payable as at 31 December 2009 and 2008 consisted of the following:

	2009	2008
Payroll taxes	84	79
VAT payable	-	13
Other taxes payable	48	46
Total	**132**	**138**

20. DEFERRED REVENUE

Deferred revenue as at 31 December 2009 and 2008 consisted of the following:

	2009		2008	
	Customer loyalty program "M.video Bonus"	Other programs	Customer loyalty program "M.video Bonus"	Other programs
As at 1 January	113	392	-	305
Revenue deferred during the year	505	572	157	392
Revenue released to the consolidated statement of comprehensive income	(96)	(392)	(44)	(305)
As at 31 December	**522**	**572**	**113**	**392**

Other programs represent primarily sales of gift cards to the Group's customers.

In millions of Russian Rubles

21. PROVISIONS

Provisions as at 31 December 2009 and 2008 consisted of the following:

	Non-current		Current	
	2009	**2008**	**2009**	**2008**
Warranty provision – in respect of additional service agreements (ASA) (i)	126	114	202	150
Warranty provision – repair of goods (ii)	3	5	9	10
Total	**129**	**119**	**211**	**160**

The movement in provisions during the years ended 31 December 2009 and 2008 is as follows:

	Warranty – ASA	Warranty – Repair of goods
Balance as at 1 January 2008	162	10
Additional provisions recognized	102	5
Balance as at 1 January 2009	264	15
Additional provisions recognized	64	(3)
Balance as at 31 December 2009	**328**	**12**

(i) The warranty provision in respect of additional service agreements represents management's best estimate of the future outflow of economic benefits that will be required under the Group's 2, 3 and 5 year additional service agreements. A Group entity sells the additional service agreements directly to customers, however, a back-to-back agreement entered into between the Group entity and a related party during the year ended 31 December 2007 transfers the obligations under the additional service agreement from the Group to the related party. For this reason an equal corresponding non-current and current asset has been recognized by the Group, and disclosed within other assets. The estimate has been made on the basis of historical warranty trends and may vary as a result of events affecting product quality.

(ii) The warranty provision in respect of repair of goods represents management's best estimate of the future outflow of economic benefits that will be required to service goods sold for which there is no supplier service centre in the Russian Federation.

22. REVENUE

Revenue for the years ended 31 December 2009 and 2008 consisted of the following:

	2009	**2008**
Retail revenue (including internet)	70,324	68,131
Wholesale revenue	2,173	3,350
Other	10	5
Total	**72,507**	**71,486**

Retail revenue for 2009 includes sales of ASA certificates of 1,914 million RUB (2008: 1,820 million RUB).

In millions of Russian Rubles

23. COST OF SALES

Cost of sales for the years ended 31 December 2009 and 2008 consisted of the following:

	2009	2008
Cost of goods and services	58,505	56,409
Inventory losses	302	711
Change in allowance for obsolete and slow-moving inventories	138	531
Supplier bonuses	(4,798)	(4,041)
Total	**54,147**	**53,610**

24. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2009 and 2008 consisted of the following:

	2009	2008
Payroll and related taxes	4,292	4,386
Lease expenses, net of income from sublease	3,310	3,041
Advertising and promotional expenses, net	2,493	2,462
Depreciation, amortization and impairment loss	1,127	863
Transportation	933	1,081
Warehouse services	860	1,090
Utilities expense	617	274
Security	454	463
Service centre	427	356
Repairs and maintenance	386	266
Bank charges	347	267
Taxes other than income tax	319	91
Legal, audit and consulting expenses	221	446
Communication	201	151
Packaging and raw materials	176	203
Office expenses	106	71
Other	346	500
Total	**16,615**	**16,011**

Payroll and related taxes include 540 million RUB contribution to the state pension fund (2008: 532 million RUB) and social and medical insurance in the amount of 166 million RUB (2008: 162 million RUB).

25. OTHER OPERATING INCOME

Other operating income for the years ended 31 December 2009 and 2008 includes commissions received from banks on loans provided to customers, goods delivery, income from leases and other items. Other operating income for the year ended 31 December 2009 included foreign currency income of 102 million RUB (31 December 2008: 153 million RUB).

26. OTHER OPERATING EXPENSES

Other operating expenses for the year ended 31 December 2009 consisted of insignificant items.

In millions of Russian Rubles

27. FINANCE COSTS, NET

Net amount of finance costs for the years ended 31 December 2009 and 2008 consisted of the following:

	2009	2008
Interest expense on bank loans	368	631
Exchange difference from foreign currency borrowings, net	290	887
Loss/(gain) on realized forward contracts	263	(148)
Coupon yield expense on corporate bonds	-	10
Change in fair value of forward contracts	(62)	(789)
Interest income	(65)	(226)
Total	**794**	**365**

Loss on exchange difference from foreign currency borrowings for the year ended 31 December 2009 is shown net of a gain of 170 million RUB earned on foreign currency deposits which were held by the Group to offset the risks associated with its foreign currency loans.

28. SHARE-BASED PAYMENTS

Employee share option plan

The Group has an ownership-based compensation scheme for executives and senior employees of the Group. In accordance with the provisions of the plan, as approved by the Board of Directors at a Board meeting held on 28 June 2007, 1,498,682 of the Company's existing ordinary shares were set aside by the controlling shareholder. Executives and senior employees (35 persons in total) have been granted the right to purchase ordinary shares at an exercise price of 10 RUB per ordinary share. Before the options are exercised, dividends are accrued to current shareholders.

Each employee share option allows the recipient to purchase one ordinary share of OJSC "Company M.video" from M.video Investment Ltd. (BVI). The proceeds from the purchase is payable to the existing shareholder. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Employees must be employed at the vesting date to exercise his or her right unless the Board of Directors waives this condition. Options may be exercised within 30 days from the date of vesting. The number of options granted per employee has been determined by the Chief Executive Officer and approved by the Board of Directors.

In millions of Russian Rubles

28. SHARE-BASED PAYMENTS (CONTINUED)

Long-term incentive plan – Series one

Under the series one of the Company's long-term incentive plan ("LTIP") as at 1 October 2007 35 persons became members of the plan and 622,500 shares were committed, which represented 42% of the shares designated for the LTIP. In 2009 prior to the second vesting date (1 April 2009), 39,000 shares were forfeited (2008: 123,000 forfeited). Of the remaining outstanding granted shares, 150,500 shares which vested on 1 April 2009 (tranche two) were exercised (2008: 166,500). The additional 40,000 granted shares were forfeited before 31 December 2009 (2008: 10,000).

Below is the summary of the arrangements that were in existence as at 31 December 2009:

Option series	Number of options	Grant date	Vesting date	Expiry date	Exercise price (RUB)	Fair value at grant date (RUB)
Issued 1 October 2007	93,500	1 October 2007	1 April 2010	30 April 2010	10	165.66

The weighted average fair value of the share options granted under LTIP Series one as at 31 December 2009 is 165.66 RUB (2008: 165.17 RUB). Options were priced using the Black Scholes pricing model. Where relevant, the model has reflected management's best estimate of the future volatility of the Company's share price, expected dividend yield, risk-free interest rates and expected staff turnover. Management draws upon a variety of external sources to aid in the determination of the appropriate data to use in such situations.

Inputs into the model	LTIP 1 share options vested on 1 April 2010
Grant date share price, RUB	173.40
Exercise price, RUB	10
Expected volatility	20.68%
Option life (years)	2.50
Dividend yield	0%
Risk-free interest rate	10%

The expected volatility was determined based on the ending weekly share price for the period 1 November 2007 (listing date) to 31 December 2007. The expected volatility is equal to the historical volatility due to the brief history of trading activity and lack of comparable industry data.

An expense of 3 million RUB has been recognized during the year ended 31 December 2009 in respect of share-based payments (31 December 2008: 37 million RUB). This expense relates to equity-settled share-based payments. The expense has been disclosed within selling, general and administrative expense in the line item "payroll and related taxes" (Note 24). The corresponding entry has been reflected within retained earnings.

In millions of Russian Rubles

28. SHARE-BASED PAYMENTS (CONTINUED)

Long-term incentive plan – Series two

As at 31 March 2008 the Board of Directors approved the adoption of Series two of the LTIP for selected members of the Group's management team. As at 1 April 2008 46 persons became members of the plan and 756,000 of the shares designated for the LTIP were committed. This allocation forms part of the initial 1,498,682 of the Company's existing shares which were set aside prior to the Initial Public Offering. Under the terms of Series two of the LTIP, the vesting period is three years with 33.33% of the shares to vest each April following the grant date. Participants are able to exercise their 33.33% entitlement within 30 days of each vesting period by paying 10 RUB per share to the operator of the program after the vesting date. The participant must be employed at the anniversary date to exercise his or her right unless the Board of Directors waives this condition.

In 2009 after the first vesting date (1 April 2009), 51,000 shares were forfeited. Of the remaining 606,000 granted shares, 210,000 shares which vested on 1 April 2009 were exercised. Then additional 112,000 granted shares were forfeited before 31 December 2009.

Below is the summary of the arrangements that were in existence as at 31 December 2009:

Option Series two	Number of options	Grant date	Vesting date	Expiry date	Exercise price (RUB)	Fair value at grant date (RUB)
Issued 1 April 2008	142,000	1 April 2008	1 April 2010	30 April 2010	10	169.69
Issued 1 April 2008	142,000	1 April 2008	1 April 2011	30 April 2011	10	170.39

The weighted average fair value of the share options granted under LTIP Series two as at 31 December 2009 was 170.04 RUB (31 December 2008 169.45 RUB). Options were priced using the Black-Scholes pricing model.

Inputs into the model	LTIP 2 share options vesting on 1 April 2010	LTIP 2 share options vesting on 1 April 2011
Grant date share price, RUB	177.45	177.45
Exercise price, RUB	10	10
Expected volatility	26.85%	26.85%
Option life years	2	3
Dividend yield	0%	0%
Risk-free interest rate	10%	10%

The expected volatility was determined based on the ending weekly share price for the period 1 November 2007 (listing date) to 1 April 2008. The expected volatility is equal to the historical volatility due to the brief history of trading activity and lack of comparable industry data.

An expense of 20 million RUB has been recognized during the year ended 31 December 2009 in respect of share-based payments under the Company's LTIP Series two (2008: 50 million RUB). This expense relates to equity-settled share-based payments and has been included into selling, general and administrative expense in the line item "payroll and related taxes" (Note 24).

In millions of Russian Rubles

28. SHARE-BASED PAYMENTS (CONTINUED)

Long-term incentive plan – Series three

On 9 December 2009 the Board of Directors approved the adoption of Series three of the LTIP for selected members of the Group’s management team. 56 persons became members of the plan and 2,670,000 of the shares were committed for the LTIP Series three. The shares will be granted by the Group to the participants of the plan at the appropriate vesting date provided that the participants are employed to exercise his or her right unless the Board of Directors waives this condition.

Below is the summary of the arrangements that were in existence as at 31 December 2009:

Option Series three	Number of options	Grant date	Vesting date	Expiry date	Exercise price (RUB)	Fair value at grant date (RUB)
Issued 9 December 2009	1,275,000	9 Dec 2009	1 April 2013	30 April 2013	-	118.47
Issued 9 December 2009	1,395,000	9 Dec 2009	1 April 2015	30 April 2015	-	118.49

The weighted average fair value of the share options granted under LTIP Series three as at 31 December 2009 was 118.48 RUB. Options were priced using the Black-Scholes pricing model.

Inputs into the model	LTIP 3 share options vesting on 1 April 2013	LTIP 3 share options vesting on 1 April 2015
Grant date share price, RUB	122.27	122.27
Exercise price, RUB	0	0
Expected volatility	123.55%	123.55%
Option life years	3	5
Dividend yield	0%	0%
Risk-free interest rate	7.5%	7.5%

The expected volatility was determined based on the ending weekly share price for the period 1 November 2007 (listing date) to 9 December 2009. The expected volatility is equal to the historical volatility due to the brief history of trading activity and lack of comparable industry data.

An expense of 5 million RUB has been recognized during the year ended 31 December 2009 in respect of share-based payments under the Company’s LTIP Series three. This expense relates to equity-settled share-based payments and has been included into selling, general and administrative expense in the line item “payroll and related taxes” (Note 24).

In millions of Russian Rubles

28. SHARE-BASED PAYMENTS (CONTINUED)

The following reconciles the outstanding share options granted under the employee share plan at the beginning and end of the financial year 2009:

	LTIP Series 1		LTIP Series 2		LTIP Series 3	
	Number of options	Weighted average exercise price (RUB)	Number of options	Weighted average exercise price (RUB)	Number of options	Weighted average exercise price (RUB)
Balance as at 1 January 2008	622,500	10	-	-	-	
Granted during the period	-	-	756,000	10	-	-
Forfeited during the period	(133,000)	10	(99,000)	10	-	-
Exercised during the period	(166,500)	10	-	-	-	-
Balance as at 31 December 2008	323,000	10	657,000	10	-	-
Exercisable at the end of the financial year	-	-	-	-	-	-
Balance as at 1 January 2009	**323,000**	**10**	**657,000**	**10**	-	-
Granted during the period	-	-	-	-	2,670,000	-
Forfeited during the period	(79,000)	10	(163,000)	10	-	-
Exercised during the period	(150,500)	10	(210,000)	10	-	-
Balance as at 31 December 2009	**93,500**	**10**	**284,000**	**10**	**2,670,000**	-
Exercisable at the end of the financial year	-	-	-	-	-	-

Balance at the end of the financial year

The share options granted under LTIP Series one and two outstanding at the end of the financial year 2009 have an exercise price of 10 RUB (2008: 10 RUB).

The weighted average remaining contractual life of the share options granted under LTIP of all three Series outstanding at 31 December 2009 is 1,400 days (2008: 396 days).

In millions of Russian Rubles

29. RELATED PARTIES

Related parties include shareholders, key management, entities under common ownership and control, and entities over which the Group has significant influence.

The consolidated financial statements include the financial statements of OJSC “Company M.video” and its subsidiaries which are listed in Note 1. Intra-group balances and transactions are not presented for purposes of this disclosure.

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year (for information regarding outstanding balances as at 31 December 2009 and 2008, also refer to Notes 9, 17 and 18):

	2009	2009	31 December 2009		2008	2008	31 December 2008	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Entities under common control								
LLC “Avto-Express”	-	142	-	13	-	144	-	7
LLC “Avtoritet”	15	192	3	8	1	52	-	3
LLC “Bars”	-	-	-	-	-	11	-	-
LLC “Company Profi Center”	-	6	-	-	-	7	-	-
LLC “MV. Stil”	1	-	-	-	1	-	-	-
LLC “Noviy Format”	-	325	-	-	-	404	-	20
LLC “Private Security Agency Bars-SB”	2	147	1	-	2	134	4	-
Transservice Group of Companies, LLC “Technovideo Service”, LLC “Transservice-95”	21	261	32	12	28	268	50	35
LLC “Universal Service”	-	330	-	36	-	366	-	29
Total	**39**	**1,403**	**36**	**69**	**32**	**1,386**	**54**	**94**

The nature of transactions with related parties is as follows:

- LLC “Avto-Express” – provides a car leasing service to the Group and logistic services;
- LLC “Avtoritet” – provides the brand name “Smart-on” to the Group under a license agreement and two trading premises in Moscow under a lease agreement. In 2009 the Group also acquired a building from LLC “Avtoritet” with the intention of using this building in its retail operations; LLC “Private Security Agency Bars – SB” – provides store and head office security services;
- LLC “Bars” – provides courier services to the Group;
- LLC “Company Profi Center” – provides servicing of inventories;
- LLC “MV. Stil” – provides rent services.
- LLC “Noviy Format” – for the periods ended 31 December 2008 and 2009 the transaction related to purchase of the buildings;
- Transservice Group of Companies – provides after sale and other servicing of the Group’s merchandise;
- LLC “Universal Service” – provides after sale servicing and other related servicing of merchandize sold in connection with additional service agreements;

In millions of Russian Rubles

29. RELATED PARTIES (CONTINUED)

The ultimate parent entity

M.video Investment Ltd. (BVI) is the ultimate shareholder of the Group.

There were no transactions between the Group and the ultimate parent during the year ended 31 December 2009 and 2008.

Immediate parent entity

Svece Ltd owns 69.9626% of the ordinary shares of OJSC “Company M.video” as at 31 December 2009 and 2008.

Refer to Note 1 for additional information on the ultimate controlling party of the Group and the share-based payment transactions involving the immediate parent entity.

Terms and conditions of transactions with related parties

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Outstanding balances at the year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party accounts receivable or payables. For the year ended 31 December 2009, the Group has not recorded any impairment of accounts receivable relating to amounts owed by related parties (2008: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group

The remuneration of directors and other members of key management during the year was as follows:

	2009	**2008**
Short-term benefits*	173	143
Share-based payments	1	35
Total	**174**	**178**

*Short-term benefits include salaries, bonuses, annual leave, medical and insurance expenses.

As at 31 December 2009 the Group’s payable to key management personnel amounted to 35 million RUB (2008: 32 mln RUB).

The number of key management positions was 15 in 2009 (2008: 16).

The Group did not provide any material post employment, termination, or other long-term benefits to key management personnel during the period other than contributions to state pension fund and the social funds as a part of payments of unified social tax on salaries and bonuses. Unified social tax paid relating to compensation of key management personnel amounted to 3 million RUB and 4 million RUB respectively for the years ended 31 December 2009 and 2008 and is included in the amounts stated above.

In millions of Russian Rubles

30. OPERATING LEASE ARRANGEMENTS

The Group has entered into commercial leases for the rental of retail properties, warehouses and office space. These leases have terms ranging between 1 and 14 years. The majority of the lease contracts contain escalation clauses. Certain lease contracts stipulate terms requiring the Group to pay the higher of minimum lease payments or a percentage of revenue. The amounts paid in excess of the minimum lease payments are disclosed as contingent rentals below. The Group does not have an option to purchase the leased premises at the expiration of the lease period.

Payments recognized as an expense

	2009	**2008**
Minimum lease payments	3,288	3,101
Contingent rentals	22	-
	3,310	**3,101**

Non-cancellable operating lease commitments

Future minimum rentals payable under non-cancelable operating leases for premises occupied as at 31 December 2009 and 2008 are as follows:

	2009	**2008**
Within one year	3,707	3,471
After one year but not more than five years	15,923	12,608
More than five years	6,127	5,467
	25,757	**21,546**

Future minimum rentals payable under committed, non-cancelable future store operating leases for premises as at 31 December 2009 and 2008 are as follows:

	2009	**2008**
Within one year	210	470
After one year but not more than five years	2,441	1,409
More than five years	2,577	2,354
	5,228	**4,233**

Future minimum rental payments will be subject to VAT.

31. COMMITMENTS AND CONTINGENCIES

Operating environment

The Group sells products that are sensitive to changes in general economic conditions that impact consumer spending. Future economic conditions and other factors, including consumer confidence, employment levels, interest rates, consumer debt levels and availability of consumer credit could reduce consumer spending or change consumer purchasing habits. A general slowdown in the Russian economy or in the global economy, or an uncertain economic outlook, could adversely affect consumer spending habits and the Group’s operating results.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group’s financial position, results of operations and business prospects. Although any further deterioration in the areas described above could negatively affect the Group’s results and financial position in a manner not currently determinable, the management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

Russian Federation tax and regulatory environment

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transaction to a market economy. As a result, laws and regulations affecting business continue to change rapidly. These changes are characterized by unclear wording which leads to, different interpretations and arbitrary application by the authorities. Management’s interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has accrued for all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities as management’s best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant.

As at 31 December 2007 management recorded a provision of 87 million RUB for income tax and 7 million RUB for other tax contingencies in the consolidated financial statements of which 32 million RUB was reversed in 2009 due to expiration of the statutory limitation period (2008: nil). In 2009 the Group recognized an additional provision of 66 million RUB relating to tax contingencies (2008: nil).

31. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Group has identified other possible tax contingencies in respect of issues unrelated to customs (as discussed below) for the three-year period ended 31 December 2009. Management has estimated that possible exposure in relation to such tax risks, if they were to materialize, would not exceed twice the amount of the Group's profit before income tax expense.

Customs

As is common in the business, the Group or an affiliated party negotiates and confirms with overseas representatives of foreign manufacturers, the quantity, price and attributes of the foreign manufactured goods, but the goods may be procured through parties both affiliated and unaffiliated with the Group.

Subject to the above, during the year ended 31 December 2009, the Group purchased a significant portion of its foreign manufactured goods on the territory of the Russian Federation from Russian legal entities, including Russian wholesalers or resellers, which may or may not have imported the goods into Russia directly. As the Group was not involved in clearing customs for the goods purchased on the territory of Russia, management can not be certain that the entities which imported the goods into Russia were in full compliance with the applicable regulations of the Russian customs code.

As described above in *Russian Federation tax and regulatory environment* section, the relevant authorities may take a more assertive position in their interpretation of the applicable laws. Under Russian law a company in possession of goods that were imported with proven violations of the customs law may be subject to significant administrative or civil penalties and/or confiscation of the goods, if it was involved in, aware of, or should have known that violation of the customs code were occurring. To date, the Group has not been subject to any notification of violations of the customs code.

Management believes that the Group entities were acting in compliance with all applicable tax and legal requirements in respect of imported products, were not involved, not aware and could not be expected to know of any significant violations of the applicable customs code by the Russian wholesalers or resellers. Accordingly, management did not recognize any provisions in respect of such contingencies in these consolidated financial statements and determined that with current limitations in access to customs clearance documents it is not practicable to estimate the likely potential financial effect, if any, of such contingent liabilities.

License Agreements

As at 31 December 2009 the Group had finished the fourth year of a five-year contract with Microsoft for Microsoft Office software right. The contract is structured in a way that allows the Group to prepay one year at a time. The total outstanding contractual commitment for the year ending 31 December 2010 including license fees and annual support is 17.5 million RUB.

Litigation

In the normal course of business, the Group is subject to proceedings, lawsuits, and other claims. While such matters are subject to other uncertainties, and outcomes are not predictable with assurance, the management of the Group believes that any financial impact arising from these matters would not be material to its financial position or annual operating results.

31. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental obligations. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental matters.

Guarantees

The Group had no outstanding guarantees issued by the Group entities or other parties for the benefit of the Group entities as at 31 December 2009 and 2008.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Generally the Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has trade and other receivables and cash and short-term deposits that arrive directly from its operations. The Group also enters into derivative transactions.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group's senior management oversees the management of these risks. The Group's senior management provides assurance to the Group's Board of Directors that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. No changes were made in objectives, policies or processes during the years ended 31 December 2009 and 2008.

The capital structure of the Group consists of cash and cash equivalents (Note 12), short-term investments (Note 11) and equity attributable to equity holders of the parent, comprising issued capital, additional paid in capital and retained earnings.

The primary objective of the Group's capital management program is to maximize shareholder value while minimizing the risks associated with the loan portfolio. The consumer electronics business is a cyclical business and as such requires short-term fluctuations in capital to purchase goods to satisfy the seasonal demand. The Group uses a combination of long-term loans, short-term loans and supplier credit terms to meet the seasonal capital needs. The store expansion program adds to the capital needs as the capital and pre-opening costs associated with the new stores puts additional pressure on the Group's financial resources. While the Group has not established any formal policies regarding debt to equity proportions the Group reviews the capital needs of the Group periodically to determine actions to balance its overall capital structure through shareholders' capital contributions or new share issues, return of capital to shareholders as well as the issue of new debt or the redemption of existing debt.

In millions of Russian Rubles

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the consolidated financial statements.

Categories of financial instruments

The carrying values of financial assets and liabilities grouped by each category of financial instruments were as follows:

	2009	2008
Financial assets		
Fair value through profit or loss	-	821
Loans and receivables (including cash and cash equivalents)	6,628	7,329
Financial liabilities		
Liabilities carried at amortized cost	21,062	23,244

Foreign currency risk management

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Management believes that this risk is not significant because at 31 December 2009 the Group has neither material assets or liabilities denominated in foreign currencies on its consolidated balance sheet nor any transactional currency exposure relating to revenue as sales occur on the territory of the Russian Federation and are denominated in RUB.

Interest rate risk management

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Management believes that this risk is not significant because as at 31 December 2009 the Group does not have any borrowings or other financial liabilities bearing floating interest rates.

Credit risk management

Credit risk refers to the risk that counterparty may default on its contractual obligations resulting in financial loss to the Group. Financial assets which are potentially subject the Group to credit risk consist primarily of trade and other receivables as well as cash in current and deposit accounts with banks and other financial institutions.

The Group trades only with recognized, creditworthy third parties which are registered in the Russian Federation. The policy is that all customers which are granted credit terms have a history of purchases from the Group, employ individuals who are known to the Group and can demonstrate they have the financial resources to cover their limits. The Group also requires these customers to provide certain documents such as incorporation documents and financial statements.

The Group's sales and credit concentration is not significant since neither revenue nor trade accounts receivable from any individual customer exceeds 5% of the Group's consolidated revenues and trade accounts receivable, respectively. Any defaults in payments or a material reduction in purchases made by any individual customer will not have significant negative impact on the Group's financial condition, results of its operations and liquidity.

The credit risk on liquid funds (see the table below) is managed by Group treasury. The management believes that credit risk on investments of surplus funds is limited as the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

In millions of Russian Rubles

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The table below shows the balances that the Group has with 3 of its major counterparties as at the balance sheet date:

Counterparty	Currency	Rating	Carrying amount 2009	Carrying amount 2008
Gazprombank	EUR,USD,RUB	BB	3,648	3,994
Credit Bank of Moscow	RUB,USD	BBB-	1,200	441
Uralsib	EUR	BB+	-	1,300

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group’s maximum exposure to credit risk.

As at 31 December 2009 and 2008 the Group does not have financial guarantees provided on behalf of other entities. There were no other concentrations of credit risk as at 31 December 2009.

Liquidity risk management

The Group’s treasury monitors the risk of a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group’s objective is to maintain a continuity of funding and flexibility through the use of bank overdrafts and bank loans. Each year the Group analyzes its funding needs and anticipated cash flows, so that it can determine its funding obligations. The seasonality of the business, the store expansion plan and the anticipated working capital requirements form the basis of the evaluation. When necessary the Group uses long-term instruments (loans and borrowings) to cover its base liquidity needs. The Group uses short-term loans and bank overdrafts to cover seasonality needs. Every quarter the Group updates its liquidity needs and secures facilities with several banks to ensure that the Group has a sufficient amount of approved undrawn borrowing facilities. As at 31 December 2009, the Group had not obtained borrowing facilities (31 December 2008: 9,833 million RUB of uncommitted standby borrowing facilities). The Group can formally apply for additional tranches of debt and the bank will provide additional funding provided all conditions precedent had been met.

The table below summarizes the maturity profile of the Group’s financial liabilities as at 31 December 2009 and 2008 based on contractual undiscounted payments:

31 December 2009	Less than 3 months	3-12 months	1-5 years	Total
Trade accounts payable	20,495	-	-	20,495
Other accounts payable and accrued expenses	567	-	-	567
Total	**21,062**	**-**	**-**	**21,062**

In millions of Russian Rubles

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

31 December 2008	Less than 3 months	3-12 months	1-5 years	Total
Interest bearing loans and borrowings	2,729	1,283	3,565	7,577
Trade accounts payable	14,878	-	-	14,878
Other accounts payable and accrued expenses	1,309	-	-	1,309
Total	**18,916**	**1,283**	**3,565**	**23,764**

Fair value of financial instruments

Management consider that the carrying amounts of financial assets and financial liabilities reflected in the Group's consolidated balance sheet as at 31 December 2009 and 2008 approximate their fair values.

33. SUBSEQUENT EVENTS

On 12 May 2010 the Board of Directors made a recommendation to approve dividends of 413 million RUB (being 2.3 RUB per share) in respect of 2009. The final approval of this dividend payment is expected at the general shareholders' meeting which is scheduled for June 2010.