

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

**Interim Condensed Consolidated  
Financial Information (Unaudited)**  
Half-Year Ended 30 June 2010

# 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 INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2010 (UNAUDITED)

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Management is responsible for the preparation of the interim condensed consolidated financial information that presents fairly the financial position of Open Joint Stock Company “Company M.video” and subsidiaries (the “Group”) as at 30 June 2010 and results of its operations, changes in equity and cash flows for the half-year then ended, in compliance with International Accounting Standard 34 “Interim Financial Reporting”.

In preparing the interim condensed consolidated financial information, management is responsible for:

- Selecting suitable accounting policies and applying them consistently;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group’s financial position and financial performance; and
- Making an assessment of the Group’s ability to continue as a going concern.

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 interim condensed consolidated financial information of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with statutory legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The interim condensed consolidated financial information for the half-year ended 30 June 2010 was approved on 31 August 2010 on behalf of the Board of Directors by:



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**A. Tynkovan**  
Chief Executive Officer



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**C. Parks**  
Chief Financial Officer

# OJSC "COMPANY M.VIDEO" AND SUBSIDIARIES

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2010 (UNAUDITED) (in millions of Russian Rubles)

	Notes	30 June 2010	31 December 2009
<b>ASSETS</b>			
NON-CURRENT ASSETS:			
Property, plant and equipment	3	6,539	6,074
Advances paid for property, plant and equipment		100	157
Intangible assets	4	520	474
Deferred tax assets		1,177	1,160
Other non-current assets	2,5	277	247
<b>Total non-current assets</b>		<b>8,613</b>	<b>8,112</b>
CURRENT ASSETS:			
Inventories	6	13,821	15,474
Trade accounts receivable		87	104
Other accounts receivable and prepaid expenses	2,7	962	947
Other taxes receivable	8	547	1,159
Income tax receivable		121	34
Cash and cash equivalents	9	1,738	6,447
Other current assets		236	225
<b>Total current assets</b>		<b>17,512</b>	<b>24,390</b>
<b>TOTAL ASSETS</b>		<b>26,125</b>	<b>32,502</b>
<b>EQUITY AND LIABILITIES</b>			
EQUITY:			
Share capital	10	1,798	1,798
Additional paid-in capital		4,576	4,576
Retained earnings		2,538	2,385
<b>Total equity</b>		<b>8,912</b>	<b>8,759</b>
NON-CURRENT LIABILITIES:			
Deferred tax liabilities		309	288
Provisions	15	127	129
<b>Total non-current liabilities</b>		<b>436</b>	<b>417</b>
CURRENT LIABILITIES:			
Short-term loans and borrowings	11	1,463	-
Trade accounts payable	12	12,427	20,495
Other payables and accrued expenses	13	895	567
Advances received from customers		478	506
Dividends payable		386	-
Income tax payable		97	321
Other taxes payable		147	132
Deferred revenue	14	665	1,094
Provisions	15	219	211
<b>Total current liabilities</b>		<b>16,777</b>	<b>23,326</b>
<b>Total liabilities</b>		<b>17,213</b>	<b>23,743</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>26,125</b>	<b>32,502</b>

The Notes on pages 6 to 17 form an integral part of this interim condensed consolidated financial information signed on behalf of the Board of Directors on 31 August 2010.



**A. Tynkovan**  
Chief Executive Officer



**C. Parks**  
Chief Financial Officer

## OJSC “COMPANY M.VIDEO” AND SUBSIDIARIES

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 30 JUNE 2010 (UNAUDITED) (in millions of Russian Rubles, except earnings per share)

	Notes	For the half-year ended	
		30 June 2010	30 June 2009
REVENUE	16	34,957	34,036
COST OF SALES	17	<u>(25,938)</u>	<u>(25,127)</u>
GROSS PROFIT		9,019	8,909
Selling, general and administrative expenses	18	(8,580)	(7,951)
Other operating income	19	425	259
Other operating expenses		<u>(42)</u>	<u>(65)</u>
OPERATING PROFIT		822	1,152
Finance income/(costs), net	20	<u>21</u>	<u>(718)</u>
PROFIT BEFORE INCOME TAX EXPENSE		843	434
INCOME TAX EXPENSE	21	<u>(325)</u>	<u>(187)</u>
<b>NET PROFIT</b> for the period, being			
<b>TOTAL COMPREHENSIVE INCOME</b> for the period		<u><b>518</b></u>	<u><b>247</b></u>
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)		2.88	1.37

The Notes on pages 6 to 17 form an integral part of this interim condensed consolidated financial information signed on behalf of the Board of Directors on 31 August 2010.



**A. Tynkovan**  
Chief Executive Officer



**C. Parks**  
Chief Financial Officer

## OJSC “COMPANY M.VIDEO” AND SUBSIDIARIES

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 30 JUNE 2010 (UNAUDITED) (in millions of Russian Rubles)

	Share capital	Additional paid-in capital	Retained earnings	Total
<b>Balance as at 1 January 2010</b>	<b>1,798</b>	<b>4,576</b>	<b>2,385</b>	<b>8,759</b>
Total comprehensive income for the period	-	-	518	<b>518</b>
Dividends declared (Note 10)	-	-	(413)	<b>(413)</b>
Recognition of share-based payment for ordinary shares previously issued (Note 22)	-	-	48	<b>48</b>
<b>Balance as at 30 June 2010</b>	<b>1,798</b>	<b>4,576</b>	<b>2,538</b>	<b>8,912</b>
<b>Balance as at 1 January 2009</b>	<b>1,798</b>	<b>4,576</b>	<b>1,615</b>	<b>7,989</b>
Total comprehensive income for the period	-	-	247	<b>247</b>
Recognition of share-based payment for ordinary shares previously issued (Note 22)	-	-	24	<b>24</b>
<b>Balance as at 30 June 2009</b>	<b>1,798</b>	<b>4,576</b>	<b>1,886</b>	<b>8,260</b>

The Notes on pages 6 to 17 form an integral part of this interim condensed consolidated financial information, signed on behalf of the Board of Directors on 31 August 2010.



**A. Tynkovan**  
Chief Executive Officer



**C. Parks**  
Chief Financial Officer

# OJSC “COMPANY M.VIDEO” AND SUBSIDIARIES

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 30 JUNE 2010 (UNAUDITED) (in millions of Russian Rubles)

	Notes	For the half-year ended	
		30 June 2010	30 June 2009
<b>OPERATING ACTIVITIES:</b>			
Total comprehensive income for the period		518	247
<i>Adjustments for:</i>			
Income tax expense recognized in statement of comprehensive income	21	325	187
Depreciation and amortization	18	613	547
Change in allowance for doubtful trade accounts receivable, other accounts receivable and prepaid expenses		(50)	9
Shared-based payment	22	48	24
Inventory losses from damaged goods and change in allowance for obsolete and slow-moving inventories	17	392	316
Other non-cash items		(2)	307
<b>Operating cash flows before movements in working capital</b>		<b>1,844</b>	<b>1,637</b>
Decrease in inventories		1,262	3,320
Decrease in other taxes receivable		612	1,144
Decrease in trade accounts payable		(8,066)	(7,517)
Increase/(decrease) in other payables and accrued expenses		328	(532)
Decrease in deferred revenue		(429)	(288)
Increase/(decrease) in other taxes payable		15	(82)
Other changes in working capital		(9)	992
<b>Cash used in operations</b>		<b>(4,443)</b>	<b>(1,326)</b>
Income taxes paid		(632)	(835)
Interest paid		(13)	(241)
Forward contracts settlement		-	542
<b>Net cash used in operating activities</b>		<b>(5,088)</b>	<b>(1,860)</b>
<b>INVESTING ACTIVITIES:</b>			
Purchases of property, plant and equipment		(1,077)	(431)
Proceeds from settlement of short-term investments		-	1,770
Decrease in advances paid for property, plant and equipment		57	-
Purchase of intangible assets		(98)	(37)
Interest received		36	51
<b>Net cash (used in)/generated by investing activities</b>		<b>(1,082)</b>	<b>1,353</b>
<b>FINANCING ACTIVITIES:</b>			
Proceeds from long-term borrowings		-	690
Proceeds from short-term borrowings		3,683	1,146
Repayment of borrowings		(2,222)	(6,504)
<b>Net cash generated by/(used in) financing activities</b>		<b>1,461</b>	<b>(4,668)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(4,709)</b>	<b>(5,175)</b>
Net foreign exchange difference		-	151
<b>CASH AND CASH EQUIVALENTS, at the beginning of the period</b>		<b>6,447</b>	<b>5,448</b>
<b>CASH AND CASH EQUIVALENTS, at the end of the period</b>		<b>1,738</b>	<b>424</b>

The Notes on pages 6 to 17 form an integral part of this interim condensed consolidated financial information, signed on behalf of the Board of Directors on 31 August 2010.



**A. Tynkovan**  
Chief Executive Officer



**C. Parks**  
Chief Financial Officer

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2010 (UNAUDITED) *(in millions of Russian Rubles)*

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### 1. GENERAL INFORMATION

The interim condensed consolidated financial information of OJSC “Company M.video” (the “Company”) and subsidiaries (the “Group”) for the half-year ended 30 June 2010 was authorized for issue in accordance with a resolution of the Board of Directors on 31 August 2010.

### 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Preparation**

The annual consolidated financial statements of OJSC “Company M.video” and its subsidiaries are prepared in accordance with International Financial Reporting Standards (“IFRS”). This interim condensed consolidated financial information for the half-year ended 30 June 2010 has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”). The interim condensed consolidated financial information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2009.

The amounts in the interim condensed consolidated financial information are presented in Russian Rubles (“RUB”), which is the Company’s functional and presentation currency, unless expressly indicated otherwise.

#### **Seasonality of operations**

Generally, the Group’s revenue is subject to seasonal fluctuations with higher demand in the second half of the year. Business seasonality results from a combination of higher sales in holiday periods (for example, New Year) and certain costs such as depreciation, some general and administrative expenses that do not precisely follow sales trends. The timing of new store openings, cost associated with restructuring or assets impairments, if any, as well as general economic conditions, may also affect the Group’s future results.

#### **Significant accounting policies**

The accounting policies adopted during the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2009, except for the following new or revised standards and interpretations issued by IASB and IFRIC effective for financial years beginning on or after 1 January 2010:

- Amendment to IFRS 1 “First – time adoption of IFRSs”;
- Amendment to 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), IAS 31 “Interests in Joint Ventures” (as revised in 2008);
- IFRIC 17 “Distribution of Non – Cash Assets to Owners”;
- IFRIC 18 “Transfers of Assets from Customers”;
- Improvements to IFRSs (April 2009).

The adoption of these new and revised standards and interpretations has not had an impact on this interim condensed consolidated financial information of the Group.

#### **Income tax**

Income tax in the interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.



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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2010 (UNAUDITED) (in millions of Russian Rubles)

### 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Reclassifications

In 2010 the Group changed presentation of certain of its assets in order to enhance fair presentation of the consolidated financial statements and interim condensed consolidated financial information. With this regard the Group made the following reclassifications to the prior period's amounts to conform to the presentation of the current reporting period:

	As previously reported	Reclassification	After reclassification	Comment
<b>Consolidated Balance Sheet as at 31 December 2009</b>				
Other non-current assets	127	120	247	Reclassification of the non-current part of advances paid for rent net of respective allowance for non-recoverability (42) from “Other accounts receivable and prepaid expenses” to “Other non-current assets”
Other accounts receivable and prepaid expenses	1,067	(120)	947	

### 3. PROPERTY, PLANT AND EQUIPMENT

During the half-year ended 30 June 2010 the Group incurred expenditures in the amount of 1,077 which is mostly represented by buildings in the amount of 515 (year ended 31 December 2009: 273) and leasehold improvements in the amount of 222 (year ended 31 December 2009: 397).

Assets with a net book value of 20 were disposed of by the Group during the half-year ended 30 June 2010 (year ended 31 December 2009: 4).

As at 30 June 2010 property, plant and equipment with a carrying amount of 1,412 (31 December 2009: nil) was collateralized against a portion of loans provided to the Group by banks (Note 11).

### 4. INTANGIBLE ASSETS

During the half-year ended 30 June 2010 the Group incurred expenditures in the total amount of 98 (year ended 31 December 2009: 232) which for the most part relate to implementation of additional functionality of the Group's ERP system SAP R/3.

### 5. OTHER NON-CURRENT ASSETS

Other non-current assets as at 30 June 2010 and 31 December 2009 consisted of the following:

	30 June 2010	31 December 2009
Long-term part of warranty asset – in respect of Additional Service Agreements (“ASA”, Note 2,15)	125	126
Long-term loans and notes receivable (Note 2)	1	1
Long-term advances paid for rent (Note 2)	181	162
Less: allowance for doubtful long-term advances paid for rent (Note 2)	(30)	(42)
<b>Total</b>	<b>277</b>	<b>247</b>

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2010 (UNAUDITED) (in millions of Russian Rubles)

### 6. INVENTORIES

Inventories as at 30 June 2010 and 31 December 2009 consisted of the following:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Goods for resale	15,483	17,110
Other inventories	23	10
Less: allowance for obsolete and slow-moving inventories	<u>(1,685)</u>	<u>(1,646)</u>
<b>Total</b>	<b><u>13,821</u></b>	<b><u>15,474</u></b>

For information relating to the cost of inventory recognized as an expense during the six-month periods ended 30 June 2010 and 30 June 2009 refer to Note 17.

As at 30 June 2010 the carrying amount of inventories pledged as collateral for the Group's bank borrowings was 2,277 (31 December 2009: nil, Note 11).

### 7. OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

Other accounts receivable and prepaid expenses as at 30 June 2010 and 31 December 2009 consisted of the following:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Advances paid to suppliers and prepaid expenses (Note 2)	861	792
Other accounts receivable from third parties	122	197
Advances paid to related parties (Note 23)	14	36
Less: allowance for doubtful accounts receivable (Note 2)	<u>(35)</u>	<u>(78)</u>
<b>Total</b>	<b><u>962</u></b>	<b><u>947</u></b>

### 8. OTHER TAXES RECEIVABLE

Other taxes receivable as at 30 June 2010 and 31 December 2009 consisted of the following:

	<u>30 June 2010</u>	<u>31 December 2009</u>
VAT recoverable	<u>547</u>	<u>1,159</u>
<b>Total</b>	<b><u>547</u></b>	<b><u>1,159</u></b>

### 9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 30 June 2010 and 31 December 2009 consisted of the following:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Cash at banks	905	786
Short-term deposits	543	4,848
Cash in transit	159	644
Petty cash and cash in stores	<u>131</u>	<u>169</u>
<b>Total</b>	<b><u>1,738</u></b>	<b><u>6,447</u></b>

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2010 (UNAUDITED) (in millions of Russian Rubles)

### 10. EQUITY

#### Share capital

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

	<u>Issued and fully paid ordinary shares</u>	<u>Authorized ordinary shares</u>
As at 31 December 2009	179,768,227	209,768,227
As at 30 June 2010	179,768,227	209,768,227

#### Dividends declared

On 23 June 2010 the Annual General Meeting approved dividends of 413 (being 2.30 RUB per share) in respect of 2009.

### 11. SHORT-TERM LOANS AND BORROWINGS

Short-term loans and borrowings as at 30 June 2010 and 31 December 2009 consisted of the following:

	<u>Interest rate</u>	<u>30 June 2010</u>	<u>31 December 2009</u>
Secured third parties credit facilities (RUB)	8.5%	550	-
Secured third parties credit facilities (RUB)	9%	410	-
Secured third parties credit facilities (RUB)	9.3%	400	-
Secured third parties overdraft (RUB)	8.5%	101	-
<b>Total principal amount of short-term loans</b>		<u><b>1,461</b></u>	<u>-</u>
Interest payable		2	-
<b>Total</b>		<u><b>1,463</b></u>	<u>-</u>

#### Metalloinvest Bank

The short-term debt to Metalloinvest Bank is mainly represented by tranche received in April 2010 under short-term credit line denominated in RUB. The tranche matures in July 2010, and credit line with a total limit of RUB 1 billion matures in April 2011. Interest rate is 8.5% per annum. As at 30 June 2010 the outstanding liability was 550. Credit line is secured by the Group's inventory with a carrying amount of 959 (Note 6).

#### MCB

The short-term debt to MCB is mainly represented by credit line and overdraft received in June 2010, denominated in RUB. The credit line with limit of 410 and interest rate of 9% per annum matures in July 2010, overdraft with limit of 500 and interest rate of 8,5% per annum matures in December 2010. As at 30 June 2010 the outstanding liability for the credit line is 410 and for overdraft is 101. Credit line is not secured by the Group's inventory or property, plant and equipment.

#### Gazprombank

The short-term debt to Gazprombank is mainly represented by short-term portion of the long-term credit line, denominated in RUB. The tranche matures in December 2010. Interest rate is 9.3% per annum. As at 30 June 2010 the outstanding liability was 400. Credit line is secured by the Group's inventory with a carrying amount of 1,318 (Note 6) and property, plant and equipment with a carrying amount of 1,412 (Note 3).

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2010 (UNAUDITED) (in millions of Russian Rubles)

### 12. TRADE ACCOUNTS PAYABLE

Trade accounts payable as at 30 June 2010 and 31 December 2009 consisted of the following:

	30 June 2010	31 December 2009
Trade payables to third parties	12,396	20,436
Trade payables to related parties (Note 23)	31	59
<b>Total</b>	<b>12,427</b>	<b>20,495</b>

### 13. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as at 30 June 2010 and 31 December 2009 consisted of the following:

	30 June 2010	31 December 2009
Accrued salaries and bonuses	322	294
Accrued rent and utilities	228	43
Accrued unused vacation	97	94
Other accrued expenses	194	72
Other current liabilities to related parties (Note 23)	7	10
Other payables	47	54
<b>Total</b>	<b>895</b>	<b>567</b>

### 14. DEFERRED REVENUE

Deferred revenue as at 30 June 2010 and 31 December 2009 consisted of the following:

	For the half-year ended 30 June 2010		For the year ended 31 December 2009	
	Customer loyalty program “M.video Bonus”	Other programs	Customer loyalty program “M.video Bonus”	Other programs
As at 1 January	522	572	113	392
Revenue deferred during the period	166	-	505	572
Revenue released to the consolidated statement of comprehensive income	(23)	(572)	(96)	(392)
<b>As at the end of the period</b>	<b>665</b>	<b>-</b>	<b>522</b>	<b>572</b>

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

### 15. PROVISIONS

Provisions as at 30 June 2010 and 31 December 2009 consisted of the following:

	Non-current		Current	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009
Warranty provision – in respect of ASA (Note 5)	125	126	213	202
Warranty provision – repair of goods	2	3	6	9
<b>Total</b>	<b>127</b>	<b>129</b>	<b>219</b>	<b>211</b>

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2010 (UNAUDITED) (in millions of Russian Rubles)

### 16. REVENUE

Revenue for the half-year periods ended 30 June 2010 and 2009 consisted of the following:

	For the half-year ended	
	30 June 2010	30 June 2009
Retail revenue (including internet sales)	34,807	32,596
Wholesale revenue	124	1,438
Other	26	2
<b>Total</b>	<b>34,957</b>	<b>34,036</b>

Retail revenue includes sales of ASA certificates in the amount of 966 for the half-year ended 30 June 2010 (30 June 2009: 846).

### 17. COST OF SALES

Cost of sales for the half-year periods ended 30 June 2010 and 2009 consisted of the following:

	For the half-year ended	
	30 June 2010	30 June 2009
Cost of goods and services	27,591	26,812
Inventory losses from damaged goods and change in allowance for obsolete and slow-moving inventories	392	316
Less: supplier bonuses	(2,045)	(2,001)
<b>Total</b>	<b>25,938</b>	<b>25,127</b>

### 18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the half-year periods ended 30 June 2010 and 2009 consisted of the following:

	For the half-year ended	
	30 June 2010	30 June 2009
Payroll and related taxes	2,414	2,102
Lease expense, net of income from sublease	1,896	1,868
Advertising and promotional expenses, net	1,098	1,162
Depreciation and amortization	613	547
Transportation	544	476
Warehouse services, including related lease expenses	500	403
Utilities expense	372	194
Security	255	214
Bank charges	165	158
Taxes other than income tax	124	57
Other	599	770
<b>Total</b>	<b>8,580</b>	<b>7,951</b>

Payroll and related taxes for the half-year ended 30 June 2010 include contribution to the state pension plan in the amount of 336 (half-year ended 30 June 2009: 295).

# OPEN JOINT STOCK COMPANY "COMPANY M.VIDEO" AND SUBSIDIARIES

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2010 (UNAUDITED) (in millions of Russian Rubles)

### 19. OTHER OPERATING INCOME

Other operating income for the half-year periods ended 30 June 2010 and 30 June 2009 includes commissions received from banks on loans provided to customers, goods delivery, income from leases and other items.

### 20. FINANCE INCOME/(COSTS), NET

Finance income/(costs) for the half-year periods ended 30 June 2010 and 2009 consisted of the following:

	For the half-year ended	
	30 June 2010	30 June 2009
Interest income	36	46
Interest expense on bank loans	(15)	(272)
Exchange difference from net foreign currency borrowings, net	-	(291)
Loss on realized forward contracts	-	(263)
Change in fair value of forward contract	-	62
<b>Total</b>	<b>21</b>	<b>(718)</b>

### 21. INCOME TAX EXPENSE

The major components of income tax expense in the Group's interim condensed consolidated statement of the comprehensive income are as follows:

	For the half-year ended	
	30 June 2010	30 June 2009
Current income tax expense	(321)	(331)
Deferred tax (expense)/benefit	(4)	144
<b>Total income tax expense</b>	<b>(325)</b>	<b>(187)</b>

The taxation charge for the half-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% to the actual expense recorded in the Group's interim condensed consolidated statement of comprehensive income:

	For the half-year ended	
	30 June 2010	30 June 2009
Profit before income tax expense	843	434
Theoretical income tax expense at statutory rate of 20%	(169)	(87)
<i>Adjustments due to:</i>		
Other non-deductible expenses, net	(156)	(100)
<b>Income tax expense</b>	<b>(325)</b>	<b>(187)</b>

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2010 (UNAUDITED) (in millions of Russian Rubles)

### 22. SHARE-BASED PAYMENTS

#### Employee share option plan

The Group had three share option schemes in operation during the half-year ended 30 June 2010, all of which are equity-settled schemes.

#### Long-term incentive plan Series 1 (“LTIP 1”) and long-term incentive plan Series 2 (“LTIP 2”).

On 28 June 2007, as approved by the Board of Directors, 1,498,682 of the Company’s existing ordinary shares were set aside by the controlling shareholder for the purpose of the Group’s share option plan. In accordance with the provisions of the plan 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. The number of options granted per employee is determined by the Chief Executive Officer and approved by the Board of Directors. Participants are able to exercise their options within 30 days since the vesting date by paying 10 RUB per share to the operator of the program.

Under LTIP 1, which was launched on 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. All share options awarded under LTIP 1 vest on 1 April 2010.

Under LTIP 2, which was approved by the Board of Directors on 31 March 2008, 46 members of the management team became members of the plan and 756,000 of the shares designated for the LTIP were committed. Under the terms of LTIP 2, the vesting period is three years with 33.33% of the shares to vest each April following the grant date.

#### Long-term incentive plan Series 3 (“LTIP 3”).

On 9 December 2009 the Board of Directors approved the adoption of Series 3 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 LTIP 3. 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.

#### **Summary of the arrangements in existence as at 30 June 2010 and 31 December 2009.**

The following table contains details of the arrangements that were in existence as at 30 June 2010 and 31 December 2009:

Option series	Number of options as at 30 June 2010	Number of options as at 31 December 2009	Grant date	Vesting date	Expiry date	Exercise price (RUB)	Fair value at grant date (RUB)
<b>LTIP 1</b>							
Issued 1 October 2007	-	93,500	1 October 2007	1 April 2010	30 April 2010	10	165.66
<b>LTIP 2</b>							
Issued 1 April 2008	-	142,000	1 April 2008	1 April 2010	30 April 2010	10	169.69
Issued 1 April 2008	142,000	142,000	1 April 2008	1 April 2011	30 April 2011	10	170.39
<b>LTIP 3</b>							
Issued 9 December 2009	1,275,000	1,275,000	9 December 2009	1 April 2013	30 April 2013	-	118.47
Issued 9 December 2009	1,395,000	1,395,000	9 December 2009	1 April 2015	30 April 2015	-	118.49

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2010 (UNAUDITED) (in millions of Russian Rubles)

### 22. SHARE-BASED PAYMENTS (CONTINUED)

#### Fair value of share options

The weighted average fair values of the share options granted under LTIP 1, LTIP 2 and LTIP 3 and outstanding as at 30 June 2010 and 31 December 2009 are as follows (in RUB):

Option series	30 June 2010	31 December 2009
LTIP 1	-	165.66
LTIP 2	170.39	170.04
LTIP 3	118.48	118.48

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	LTIP 2 share options vesting on 1 April 2010	LTIP 2 share options vesting on 1 April 2011	LTIP 3 share options vesting on 1 April 2013	LTIP 3 share options vesting on 1 April 2015
Grant date share price, RUB	173.40	177.45	177.45	122.27	122.27
Exercise price, RUB	10	10	10	-	-
Expected volatility	20.68%	26.85%	26.85%	123.55%	123.55%
Option life (years)	2.5	2	3	3	5
Dividend yield	0%	0%	0%	0%	0%
Risk-free interest rate	10%	10%	10%	7.5%	7.5%

The expected volatility was determined based on the ending weekly share price for the period from 1 November 2007 (listing date) to 31 December 2007 for LTIP 1, from 1 November 2007 to 1 April 2008 – for LTIP 2 and from 1 November 2007 to 9 December 2009 – for LTIP 3. The expected volatility is equal to the historical volatility due to the brief history of trading activity and lack of comparable industry data.

#### Movements in share options during the period

The following reconciles the outstanding share options granted under the employee share plan at the beginning and end of the half-year period ended 30 June 2010:

	LTIP 1		LTIP 2		LTIP 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)
<b>Balance as at 1 January 2009</b>	<b>323,000</b>	<b>10</b>	<b>657,000</b>	<b>10</b>	-	-
Forfeited during the period	(39,000)	10	(51,000)	10	-	-
Exercised during the period	(150,500)	10	(214,000)	10	-	-
<b>Balance as at 30 June 2009</b>	<b>133,500</b>	<b>10</b>	<b>392,000</b>	<b>10</b>	-	-
Exercisable at the end of the period	-	-	-	-	-	-
<b>Balance as at 1 January 2010</b>	<b>93,500</b>	<b>10</b>	<b>284,000</b>	<b>10</b>	<b>2,670,000</b>	-
Forfeited during the period	(2,000)	10	(12,000)	10	-	-
Exercised during the period	(91,500)	10	(136,000)	10	-	-
<b>Balance as at 30 June 2010</b>	<b>-</b>	<b>-</b>	<b>136,000</b>	<b>10</b>	<b>2,670,000</b>	-
Exercisable at the end of the period	-	-	-	-	-	-

The weighted average remaining contractual life of the share options granted under LTIP of all three Series outstanding as at 30 June 2010 is 1,330 days (31 December 2009: 1,400 days).



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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2010 (UNAUDITED) (in millions of Russian Rubles)

### 22. SHARE-BASED PAYMENTS (CONTINUED)

#### Share-based payments expense

The summary of expenses recognized by the Group in respect of share-based payments in the half-year periods is as follows:

Option series	For the half-year ended	
	30 June 2010	30 June 2009
LTIP 1	1	4
LTIP 2	6	20
LTIP 3	41	-
	<b>48</b>	<b>24</b>

The above expense has been included into “Selling, general and administrative expenses” in the line item “Payroll and related taxes” (Note 18).

### 23. RELATED PARTIES

Related parties include shareholders, key management, entities under common ownership and control, and entities over which the Group has significant influence. The following table provides the total amount of transactions, which have been entered into with related parties during the 6 months ended 30 June 2010 and 2009 and the outstanding balances of amounts owed by/to related parties as at 30 June 2010 and 31 December 2009, respectively:

	six months 2010		six months 2009		30 June 2010		31 December 2009	
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties	Amounts owed by related parties	Amounts owed to related parties
<b>Entities under common control:</b>								
LLC “Avto-Express”	-	36	-	79	-	5	-	13
LLC “Avtorit”	-	35	-	29	-	2	3	8
LLC “Noviy Format”	-	26	-	44	-	-	-	-
Transservice Group of Companies	2	28	13	172	13	-	32	12
LLC “Universal service”	6	145	-	169	1	22	-	36
LLC “Private Security Agency Bars-SB”	1	82	1	69	-	9	1	-
	<b>9</b>	<b>352</b>	<b>14</b>	<b>562</b>	<b>14</b>	<b>38</b>	<b>36</b>	<b>69</b>

#### Compensation of key management personnel of the Group

The remuneration of directors and other members of key management during the half-year periods ended 30 June 2010 and 30 June 2009 was as follows:

	For the half-year ended	
	30 June 2010	30 June 2009
Short-term benefits*	71	33
Share-based payments	13	8
<b>Total</b>	<b>84</b>	<b>41</b>

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

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 is included in the amounts stated above.

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2010 (UNAUDITED) (in millions of Russian Rubles)

### 24. OPERATING LEASE ARRANGEMENTS

Future minimum rentals payable under non-cancellable operating leases for premises occupied as at 30 June 2010 and 31 December 2009 are as follows:

	30 June 2010	31 December 2009
Within one year	4,217	3,707
After one year but not more than five years	18,981	15,923
More than five years	7,271	6,127
	<b>30,469</b>	<b>25,757</b>

Future minimum rentals payable under committed, non-cancellable future store operating leases for premises as at 30 June 2010 and 31 December 2009 are as follows:

	30 June 2010	31 December 2009
Within one year	280	210
After one year but not more than five years	1,965	2,441
More than five years	1,767	2,577
	<b>4,012</b>	<b>5,228</b>

Future minimum rental payments will be subject to VAT.

### 25. COMMITMENTS AND CONTINGENCIES

#### Operating environment

The Group sells products that are more 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

No significant changes in the Russian tax, currency and custom legislation relating to the business transactions of the Group have happened since the Group issued its annual consolidated financial statements for the year ended 31 December 2009.

#### License Agreements

2010 is the fifth year of a five-year contract between the Group and Microsoft for Microsoft Office software right. As of 30 June 2010 the total commitment for the remainder of the contract is 8.75.

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2010 (UNAUDITED) *(in millions of Russian Rubles)*

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### 26. EVENTS AFTER THE BALANCE SHEET DATE

As at the date when this interim condensed consolidated financial information was authorized for issue, no events after the balance sheet date have taken place that would require disclosure in the interim condensed consolidated financial information.