

ANNUAL REPORT 2008

2008

ANNUAL REPORT

M. VIDEO



WWW.MVIDEO.RU

A VIBRANT WORLD OF ELECTRONICS



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Annual
Report 2008
OJSC “Company
“M.video”



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2008 Performance Highlights

- Net retail revenue up 41% y-o-y to 68,131 million roubles
- Like-for-like sales up 11%
- Gross margin 25%
- EBITDA margin 5%
- 157 stores in 64 cities as of 31.12. 2008
- 37 stores opened in 2008
- Total store area 416,500 sq m; total sales area 310,000 sq m as of 31.12. 2008

Statement from Chairman and CEO



Alexander Tynkovan

Peter Györfy

2008 was a year of sustainable growth for M.video

Our revenues, gross margin, EBITDA and net profit all grew significantly from 2007. We were able to achieve this as a result of double-digit like-for-like sales growth and by opening 37 new stores.

We are clearly demonstrating that we have a powerful business model and high brand awareness and loyalty amongst customers. This allowed us to become the fastest growing consumer electronic retail network in Russia and proved a virtue of our corporate strategy and values.

In the previous years the Russian consumer electronics market was growing ahead of expectations and M.video was well positioned to capitalise on that. Our timely and successful IPO in November 2007 raised over USD 200 million which we used to support the expansion of our successful store format.

In addition, we focused on developing our supply chain management systems, increasing our inventory turnover and improving logistics as well as building strong net debt financial position.

Now M.video is challenged to continue delivering against its strategy and improve its overall market position. Making progress in a turbulent economic environment is always rewarded. Apart from a declining market M.video continues to grow organically and gain market share in those cities where we operate. We see a lot of opportunities for the future to strengthen M.video's competitive position.

It was also quite a significant achievement for us in 2008 to continue to open stores while decreasing our overall debt position. Our strong balance sheet and low leverage sends a very good signal to our employees, suppliers, customers and investors.

We are confident that M.video can continue to exploit the excellent conditions offered by the Russian market and our customers' aspirations to own or upgrade consumer electronics for their homes and their lives. We have a best-in-class management team, energetic and knowledgeable employees who are focused on customers' needs and on ensuring that they have a memorable experience every time they visit our stores.

Finally, we would like to thank everyone for their support in 2008, and we look forward to continuing success in 2009.

Peter Györfy,
Chairman of the Board
of Directors

Alexander Tynkovan
Chief Executive Officer

Company Philosophy

Vision

M.video is the best place to shop for consumer electronics in Russia.

Mission

To build up an efficient consumer electronics business in Russia:

- to make high-quality consumer electronics goods available to consumers with high quality service;
- to ensure career opportunities for company employees;
- to achieve positive growth in company operations and profitability.

Strategy

Our primary business objective is to increase shareholder value through increased revenue and operating margins and, by focusing on our competitive strengths, to increase our market share in Russia by becoming the number 1 retailer in the cities where we operate. In order to achieve these objectives, we are implementing a strategy that includes the following key elements:

- Increasing market share based on our successful format
- Enhancing our key brand advantages
- Focus on profitability

Company Background

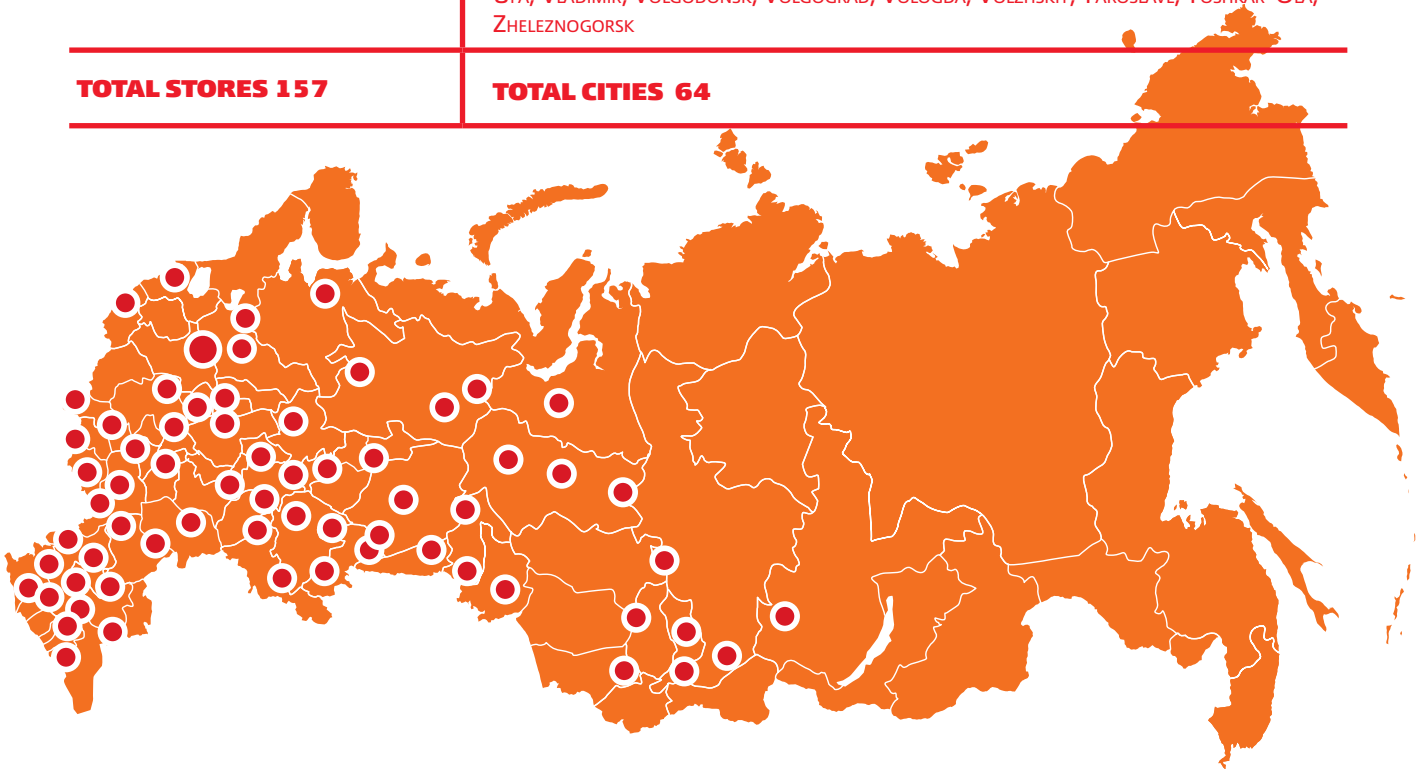
M.video is a leading consumer electronics and home appliance retailer in the Russian Federation. We opened our first retail store in the centre of Moscow in 1993 and as of 31.12.2008 we operate 157 stores in 64 cities in selected regions of Russia. We also operate two online internet stores and are engaged in wholesale sales of consumer electronics and home appliances to other retailers.

M.video offers its customers approximately 20,000 SKUs of audio/video, digital, small and large home appliances, media and entertainment products as well as accesso-

ries. We sell brand name products as well as some exclusive and own label goods. M.video generally operates its stores under a uniform format and a specially designed store concept to provide customers with approximately 2,000 square meters of easy-to-navigate shopping space that also offers information about products and upcoming trends.

M.VIDEO LOCATIONS

2008 NUMBER OF STORES	CITY
39	MOSCOW
16	ST.PETERSBURG
5	YEKATERINBURG, NIZHNIY NOVGOROD
4	CHELYABINSK, ROSTOV ON DON, KAZAN
3	NOVOSIBIRSK, SAMARA, VORONEZH
2	KRASNODAR, LIPETSK, PERM, RYAZAN, SARATOV, STAVROPOL, TYUMEN
1	ADYGEYA ALMETYEVSK, ARKHANGELSK, ARMAVIR, ASTRAKHAN, BARNAUL, BRYANSK, IVANOVO, IZHEVSK, KEMEROVO, KHANTY-MANSIYSK, KOSTROMA, KRASNOYARSK, KURGAN, KURSK, MAGNITOGORSK, NABEREZHNYE CHELNY, NALCHIK, NEFTEYUGANSK, NIZHNEKAMSK, NIZHNEVARTOVSK, NIZHNIY TAGIL, NOVOKUZNETSK, NOVOROSSIYSK, OMSK, OREL, ORENBURG, ORSK, PENZA, PSKOV, SALAVAT, SOCHI, STARY OSKOL, STERLITAMAK, SURGUT, TAGANROG, TAMBOV, TOLYATTI, TOMSK, UFA, VLADIMIR, VOLGODONSK, VOLGOGRAD, VOLOGDA, VOLZHSKIY, YAROSLAVL, YOSHKAR-OLA, ZHELEZNOGORSK
TOTAL STORES 157	TOTAL CITIES 64



Delivering with
our Corporate Strategy



A Vibrant World
of Electronics



Delivering with our Corporate Strategy

2008 was a successful year for M.video, anchored by sales growth in our existing store network and supported by the execution of our expansion strategy. We aim to be the number one consumer electronics retailer in each city in which we operate.

We opened a total of 37 new stores in 2008: 6 in Moscow and its nearby suburbs, 3 in St Petersburg and 28 in the regions, including entering 16 new cities.

Our proven model for expansion, based on our uniform store concept and an average store size of 2000 sqm of selling space works as follows:

We have three target groups: cities with a population of over 800,000; cities with 300,000 - 800,000 inhabitants and cities with 150,000 - 300,000 residents. We look for high average disposable income, economic stability and high density of population and defined traffic zones. Another important factor is significant construction, either in new shopping malls or in residential developments.

Firstly, we select an appropriate location. We then fit out the store, install our IT systems and bring in the store manager 2 months before opening. This gives us 7 to 8 weeks to deliver the matrix of inventory to the store and conduct staff training. All in all, the average time it takes us to open a store is 3-5 months, and we invest 55 million Roubles in each store on fixtures, lease agreements and other pre-opening costs.

Approximately 85% of our stores are in shopping malls; the remaining 15% are stand alone destinations.

As we expand and open more stores in a specific city, this enables us to achieve more economies of scale with our logistics partners and makes it easier to stock each new store as it opens.

Our advertising budget is split roughly equally between promotional flyers, federal TV advertising and billboards.

When we enter a new city for the first time, we advertise our presence through printed flyers and billboard advertising. When we open a second store in the same location, we can benefit from existing billboards. And as our TV spots are shown on federal TV, our brand is already present from coast to coast, wherever we may choose to open a store.

Innovation

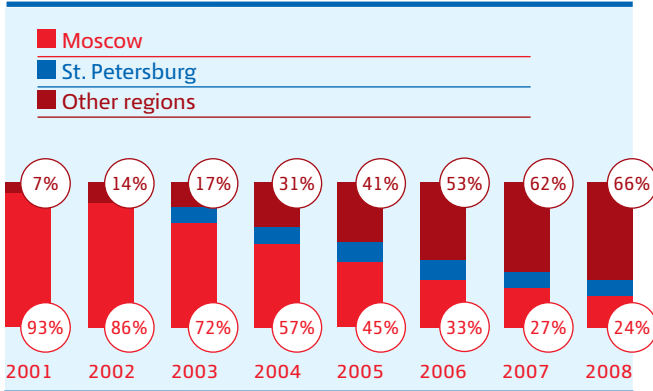
The consumer electronics industry is developing rapidly, heralding the arrival of a host of new technologies. M.video has always monitored trends in the industry and is the first to offer its customers access to innovative products.

In 2008, M.video was the first Russian consumer electronics retail chain to start sales of the revolutionary Apple Macbook Air, the slimmest laptop solution delivered by Apple Computers Inc. All in all, in 2008 M.video demonstrated record-breaking sales growth of laptops in the Russian market by 132% as compared to the previous year.

We also widely launched Blue Ray DVD players for the mass market, compact GPS devices, game consoles and actively promoted new Apple iPhone 3G devices in our stores in 2008. M.video offered the largest choice of products in these categories and ran special promotional campaigns.

In 2008 we were awarded with a prestigious national "Sales Business Award" in a "Consumer Electronics" category.

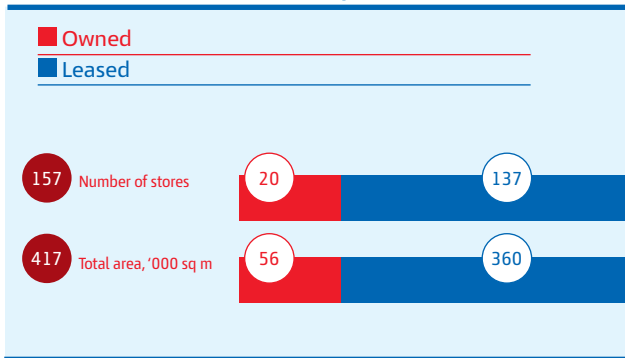
INCREASING SHARE OF REGIONAL OPERATIONS



M.video has always managed price erosion pro-actively. As we have good relations with our vendors, we can prepare in advance to pass on price reductions to our customers whilst maintaining our sales margins and growing our sales volumes.

In 2008 we became the fastest growing consumer electronics retail chain: our full year sales (+41%) outperformed all major market players in Russia.

REAL ESTATE STRUCTURE, AS OF 31.12.08



Gross Margin Development

The management of M.video focuses constantly on ways to increase gross margins. We target consumers who are prepared to spend more for quality, design and service. We are currently leaders in the consumer electronics market in terms of selling high-margin products. We know how to sell top of the range electronics and we have the highest levels of sales efficiency and average spend for our retail outlets.

This differentiation and focus on high-margin products and products with additional features brings us additional benefits with our vendors such as special delivery conditions and favourable purchasing prices. About 30% of our high value-added products are supplied under exclusive vendor agreements with special terms.

It is also our strategy to increase the average price in each product category and move each product range step by step to a higher price point.

Unlike most of our competitors, M.video maintains relatively high gross margins by implementing a strategy of value-added sales. This strategy encompasses not only the sales of high value-added products, but also the sale of suitable accessories and consumables.

Competition

M.video competes with both national and regional retailers across Russia as well as against niche specialist retailers like IT stores and photographic stores. Due to our aggressive expansion programme in the Russian regions and our active marketing and promotional activities we have been able to win market share from local competitors. We can demonstrate high growth rates in sales due to our superior sales technologies and high standards of customer service. Indeed, our growth is faster than the niche retailers in the specialised segments.

Committing to Customers, Committing to our Staff

Our employees are part of our competitive advantage. We place a premium on employee recruitment and training to build a strong, team-oriented company culture. We keep a watchful eye on the Russian labour market to ensure that our compensation packages are competitive.

People are at the heart of our business – and key to our success in opening new stores. As we started our regional expansion, we developed two internal training programmes for high flyers.

The four month “Aspirant” programme is targeted at developing future store managers. The programme gives them operational experience in all areas, and the management and leadership skills to run a store like an entrepreneur from day one. In addition, we are running a junior aspirant training programme to support the development of staff who have the potential to become section managers in our stores.

Our corporate university provides on-going training for our staff. There is a wide range of courses to support personal and professional development. Moreover, our store personnel have product training twice a year, and have access to on-line training resources and self-guided training courses to keep their product knowledge up to date.

We believe that customer loyalty is key to our success. People want to visit M.video stores because they know they will get good advice about products and accessories, and can find out about new trends. Our staff will always be available to give advice or offer help about what additional items are necessary to ensure successful installation at home.

PRODUCT MIX BY SKU

Audio / Video	1,400
Large Appliances	1,800
Small Appliances	700
IT	200
Telecom	450
Photo	150
Media	10,200
Accessories	5,100
TOTAL	20,000

At M.video we are constantly looking for new ways to increase sales volumes. In 2008 we launched a new customers’ loyalty program called “M.video Bonus” and based on the innovative Oracle Siebel loyalty management CRM-solution. The programme was designed using the worldwide best practice and encouraged our customers to collect and to spend bonus points while providing them with personalized shopping history, promo, special offers, information etc. The M.video Bonus program was piloted in in our Moscow stores and then rolled out to other regions. For the first six months over 500,000 of our customers enjoyed the new loyalty management program; we estimate that each third customer returned to our store to convert his bonus points into new purchases.

In 2008, more than 20 million transactions were made in M.video stores. We estimate that about 25% of store visitors actually make a purchase. The average transaction value in 2008 was around 4,000 Roubles, including VAT @18%.

We are constantly striving to improve our customer service and use many different resources to check independently our service quality. We conduct regular “Mystery Shopper” surveys in all our stores across Russia using

an independent agency. This allows us to collect valuable data about product sales and the performance of our staff. Twice yearly we use the same questionnaire to benchmark ourselves against our peers in the Russian consumer electronics market. This benchmarking is an invaluable management tool and enables us to tune our product offerings to match consumer demands.

Our customer offering is supported by a 24 hour call centre. Whether a product has been bought from M.video store or not, our consultants and technicians can assist consumers with advice on topics ranging from the location and opening times of our stores to how to operate and install products.

Corporate Social Responsibility

M.video runs a charitable foundation "Our Initiative" which makes donations to a number of different projects. Our contributions went up by 62% in 2008, in line with our philosophy to develop our Corporate Social Responsibility programme.

Our programmes are focused on the Russian regions and in 2008 we implemented charitable projects for the first time in such cities as Almyetyevsk, Kursk, Nalchik, Novorossiysk, Novosibirsk, Orel, Omsk, Pskov, Sochi, Taganrog, Volgograd and Zheleznogorsk.

We have always considered children a priority for our activities. We made donations to 319 institutions (compared with 298 in 2007) to support child care, educational projects and medical care.

In 2008 we ran a special programme under "Our Initiative" charitable fund and supported by Russian Aid Foundation of the Kommersant newspaper and several

medical care centers in the regions. The programme was designated to provide financing (of more than 4,7 million rubles) for the surgery treatment of the child scoliosis. Under the programme 38 young patients had been operated.

We continued our Veterans programme, which provides support for pensioners and veterans from the Great Patriotic War. Typically, we distribute festive food packages, white goods and offer financial support.

In 2008 M.video also took part in the nationwide competition on the Corporate Social Responsibility run by Russian Donators Forum and Ministry for Trade and Economic Development of Russia. Our programme "Children Outlook on Arts" was awarded with an official appreciation from the Public Chamber under the President of Russia.



FREESPACE

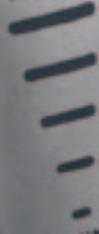


1800W

WASHABLE
HEPA FILTER

TITLUBE

MAX



MIN



Operational Review



A Vibrant World
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Operational Review

Review

M.video's aggressive expansion strategy is supported by prudent financial management.

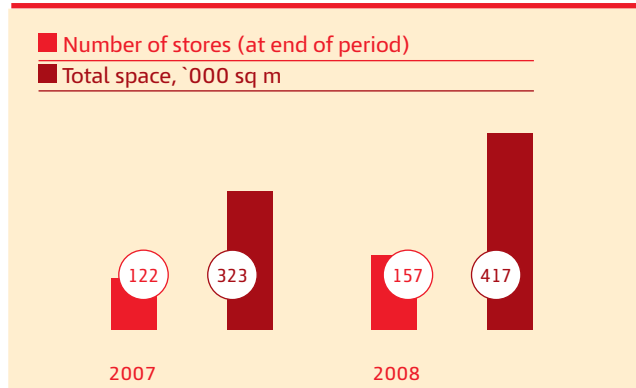
For all potential new store locations, we prepare a detailed model to analyse the projected revenue, the cost structure and calculate the pay-back period and internal rate of return. We conduct a careful analysis of available leases on potential stores, and walk away if the price is not right, or the return is not sufficient. As the right premises are critical to our success, we take a robust view of lease management to ensure continuity of operations whilst keeping tight control of costs.

At the end of 2006, we started reviewing our logistics operation and embarked on a multi-year Supply Chain Management (SCM) project. SCM is about more than just the technical aspects of storing and moving our products, it is about demand planning, forecasting & replenishment and about having the right goods at the right place at the right time, therefore reducing inventory levels and out-of-stock in the stores so that sales can be maximized.

We manage an inventory of 20,000 items comprising 5,000 core products, 5,000 accessories and 10,000 media and entertainment products. Within our uniform store concept, we can vary the sales area for different product groups according to local customer needs.

On the financial side, we can continue to grow revenue in existing locations by focusing on sales of accessories which have higher gross margins. This has proved successful in Moscow, where we have now been operating for 16 years, and we believe this model will continue to apply as our stores outside Moscow mature. In addition, as we increase the number of stores in a single city, we are careful to manage locations and product selection so that there is little cannibalisation between M.video stores. Thus, as we add a second, third or fourth store in a particular city, we see the benefits of increased sales very quickly.

NUMBER OF STORES AND GROWTH IN STORE AREA



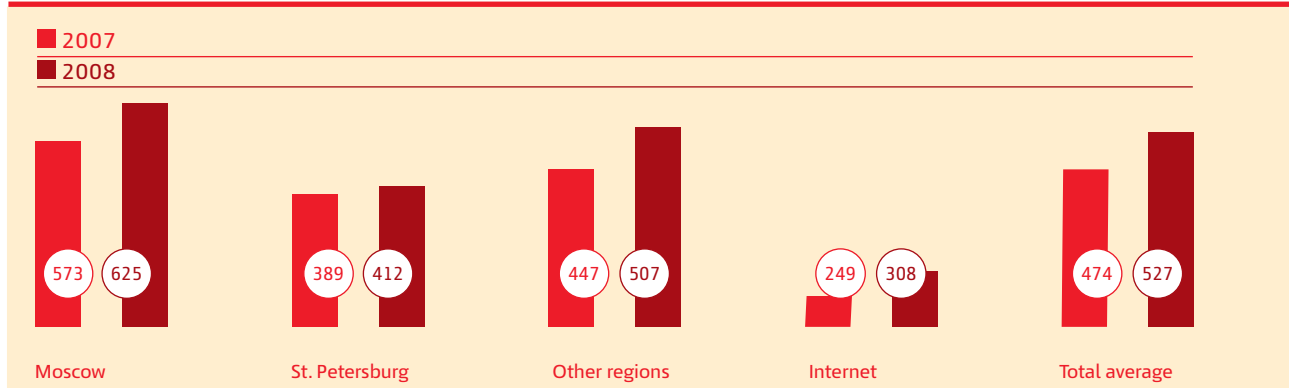
We have good long term relationships with our vendors and suppliers and we currently offer over 100 brands. Thanks to our customer insight and industry knowledge, we can react quickly to changes in consumer buying patterns so that our stores always offer the most attractive range of goods.

We have now reached critical mass with our operations at headquarters in Moscow and do not expect staff numbers and thus total salaries to grow as fast as in previous years. In terms of employees in our stores, we are seeking to implement new technologies to make our staff more productive, and release them from administrative tasks so that they can concentrate more time on our customers on the sales floor.

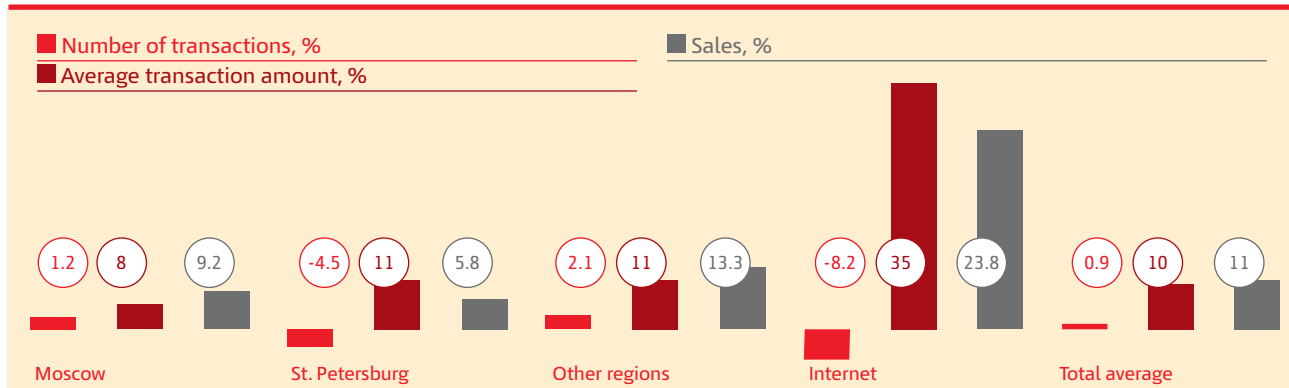
1

Like-for-like (Lfl) data is based upon a comparison of stores open at January 1, 2008 and not closed for more than two weeks or permanently, or expanded or downsized by >20% of total space

LIKE-FOR-LIKE¹ REVENUE PER STORE 2007-2008 RUB MLN



TRANSACTIONS, AVERAGE TICKET AND LIKE-FOR-LIKE¹ REVENUE GROWTH 2007-2008



Outlook

In 2009, our focus will be on delivering sales results while keeping strong our financial position and opening new stores. We have committed to open up to 23 new stores in 2009.

Our SCM project is progressing well, and we will continue to concentrate our efforts on bringing greater economies of scale and efficiency to the whole of our supply chain. The net benefits of the SCM project will be realised in future years as we will make significant development investments in the period 2009-2012.

After our people, the M.video brand is one of our strongest assets. That is why we do not franchise stores, but keep direct control through our employees. In this way, we can ensure that we apply universal brand standards to all our stores, wherever they are located. The M.video brand is underpinned by our corporate values; honesty, simplicity, effectiveness and teamwork. We expect all our staff to share these values and to focus 100% on our customers

Overall, M.video's success is driven by the hard work and dedication of all our staff. We will continue to innovate and delight our customers in all our locations to ensure that they believe that M.video is the best place to shop for consumer electronics in Russia.



Financial Performance Review



A Vibrant World
of Electronics

Financial Performance Review

FINANCIAL PERFORMANCE HIGHLIGHTS, 2006-2008

<i>in millions of Russian roubles</i>	2008	2007	2006
Net revenue, incl.	71,486	52,317	36,258
Retail revenue	68,131	48,410	31,417
Gross profit	17,876	11,965	7,825
Gross margin	25.0%	22.9%	21.6%
Operating expenses	15,143	9,881	6,678
As % of net revenue	21.2%	18.9%	18.4%
Operating profit (EBIT)	2,733	2,084	1,147
EBIT margin, %	3.8%	4.0%	3.2%
EBITDA	3,596	2,607	1,446
EBITDA margin	5.03%	4.98%	4%
Net profit	1,256	649	390
Net margin	1.8%	1.2%	1.1%

Revenues

M.video generates revenues from the sale of goods through retail and wholesale channels. Our revenues increased by 37% to RUB 71.5 billion in 2008 compared with RUB 52.3 billion in 2007. Retail revenues comprised 95% of our total revenues for 2008 compared to 93% for 2007.

Retail sales, which are reported net of estimated customer returns, rebates, discounts and VAT, increased 41% to RUB 68.1 billion in 2008 from RUB 48.4 billion in 2007. The retail revenue was driven by several key factors. Firstly, the like-for-like store sales grew by 11 % compared to 2007, which mostly came from average ticket increase. Secondly, stores that were opened throughout 2007 were working full year in 2008. Finally, we added 37 new stores throughout 2008 in 16 cities of Russian Federation thus bringing total to 157 stores in the end of the year.

Wholesale sales decreased by 14% to RUB 3.4 billion in 2008 compared to RUB 3.9 billion in 2007. Our strategy is to focus on long-term relationships with our wholesale customers, rather than focusing on sales growth in this channel.

Cost of Sales

Cost of sales increased by 33% to RUB 53.6 billion in 2008 from RUB 40.4 billion in 2007. Cost of sales reflects movements in inventory balances which include the actual cost of the products purchased from suppliers and any inbound customs duties, transportation and other incidental costs.

Supplier bonuses almost doubled in 2008 to RUB 4.0 billion from RUB 2.2 billion in 2007 being driven by purchasing volume increases that allowed M.video to leverage our strong position in relations with suppliers.

Gross Profit

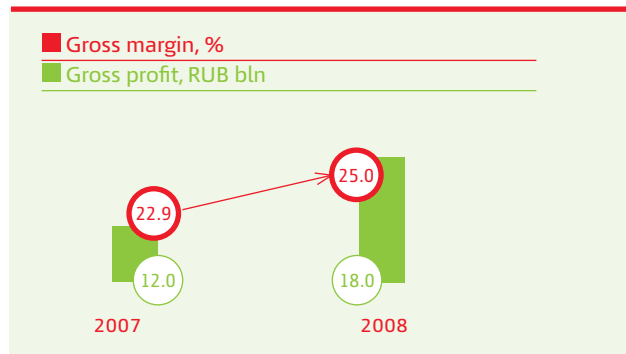
Gross profit increased by 49% to RUB 17.9 billion in 2008 compared with RUB 12.0 billion in 2007. Gross margin increased as a percent of revenue by 2.1% to 25.0% in 2008 comparing to 22.9% in 2007. Strong margin growth was backed by the increasing sales volume and more effective management of supplier relations.

Selling, general and administrative expenses

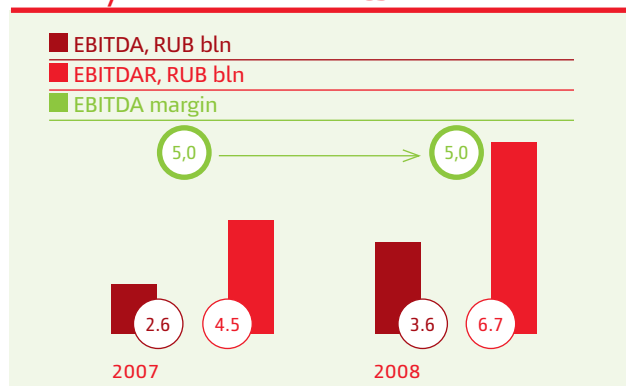
Our selling, general and administrative expenses increased by 50% to RUB 16.1 billion in 2008 from RUB 10.7 billion in 2007 as a result of current year expansion. Operating expenses increased by 2.0% as percent of revenue in 2008 compared to 2.1% in 2007 demonstrating slight reduction in growth rates.

The detailed account of individual cost increase is given below, however there is one significant common factor that accelerated expense growth in 2008. We have added 37 new stores and 16 new cities what resulted in expansion of the retail network by more than 28%. There is a direct relationship between expansion and operating expenses' growth. We start incurring expenses in new locations before and during a store-opening, however after the opening it takes time for a store to get to mature sales levels. It creates a time lag between revenue and expense flows and leads to lower operational efficiency during active expansion period, which is generally up to six months.

GROSS PROFIT AND GROSS MARGIN DYNAMICS



EBITDA/EBITDAR DYNAMICS



The following table sets out our most significant selling, general and administrative expenses for the years ended 31 December 2008 and 2007 as a percentage of retail revenues:

In millions of RUB and as a % of Total Revenues

	Year ended			
	31 December 2008		31 December 2007	
Payroll and related taxes	4,386	6.1%	3,058	5.8%
Lease expense	3,101	4.3%	1,940	3.7%
Advertising and promotional expenses	2,462	3.4%	1,646	3.1%
Transportation & warehouse services	2,171	3.0%	1,526	2.9%
Depreciation & amortization and impairment loss	863	1.2%	523	1.0%
Other ¹	3,088	4.3%	2,040	3.9%
TOTAL	16,071	22.5%	10,733	20.5%

¹

Other includes: utilities, security services, service centre, repairs and maintenance, bank charges, packaging and raw materials, consulting services, travel costs among others

Payroll and related taxes increased in 2008 by 43% to RUB 4.4 billion from RUB 3.1 billion in 2007. Percentage growth if compared to 2007 can be explained by two factors. Firstly, wage inflation of 17% is greater than the like-for-like growth of 11%. Secondly, we employed more head office and regional staff to allow us to run distant locations.

Lease expenses increased as a percentage of total revenues between 2008 and 2007 to 4.3% from 3.7%. The growth was driven by several factors, among which were increase in existing rents due to foreign currency appreciation, as part of agreements are dependent on exchange rates, annual indexation and higher rents of new stores as there was a high degree of competitiveness for new commercial properties.

Advertising and promotional expenses increased by 50% to RUB 2.5 billion in 2008 from RUB 1.6 billion in 2007. Accelerated growth was driven primarily by outdoor advertising and distribution of leaflets as a result of expansion, and, as well, by TV advertising due to high media inflation in 2008.

Transportation & warehouse service costs increased by 42% to RUB 2.2 billion in 2008 from RUB 1.5 billion in 2007 due to the expansion of the retail network into more distant regions of Russia. Transportation of goods from central warehouse to stores in the regions is generally more expensive and depends on the distance from Moscow. Indexation of tariffs was also a factor that contributed to the overall cost increase.

Depreciation and amortization expenses increases are a direct result of the capital expenditure on new stores and the deprecation of the two additional properties brought into the Group in 2008.

Other Operating Income

Other operating income increased to RUB 1,061 million in 2008 from RUB 994 million for the year ended 31 December 2007. Other operating income includes commissions received from banks on consumer credits provided to our customers, income from home delivery of goods and other individually insignificant items.

Consumer credit commissions constitute substantial part of other operating income. Banks paid these commissions for gaining access to our customer base, thus allowing some profit sharing. However, by the year end as the credit market tightened this source of income suffered a decline due to the reduction in number of credits granted.

Other Operating Expenses

Other operating expenses decreased to RUB 133 million for 2008 from RUB 142 million for 2007.

Operating Profit

Operating profit increased by 31% to RUB 2.7 billion in 2008 from RUB 2.1 billion in 2007. As a percentage, the operating profit decreased to 3.8% in 2008 from 4.0 % in 2007 indicating that increase in costs due to regional expansion exceeded the improvement achieved in gross margin.

Net Finance Costs

Net finance costs comprise interest on bank loans and deposits, interest on corporate bonds, exchange difference from foreign currency borrowings and the impact of a change in the fair value of forward exchange contracts. Our net financing expenses decreased in total by 57.0% to RUB 365 million in 2008 from RUB 848 million in 2007. The positive change was driven primarily by interest income earned on deposits, reduction in coupon yield due to redemption of bonds and net income earned on revaluation of forward contracts.

Effective foreign exchange policy allowed us to completely mitigate losses incurred on revaluation of loans and borrowings and provided additional income.

Income Tax Expense

Our income tax expense for the year ended 31 December 2008 and the year ended 31 December 2007 is shown in the following table:

	<i>In millions of RUB</i>	
	<i>Year ended</i>	
	<i>31 December 2008</i>	<i>31 December 2007</i>
Current tax expense	(1,358)	(908)
Deferred tax benefit	246	321
TOTAL INCOME TAX EXPENSE	(1,112)	(587)

Our principal tax liability is Russian corporation tax. The effective tax rate for 2008 was 47.0% compared to the Russian corporate income tax rate of 24.0%. In addition to the corporate income taxes, the Group had non-deductible expenses and adjustments to deferred tax assets and liabilities due to reduction in tax rate which added 19.0% and 4.0%

respectively. The Russian taxation code has decreased as of 01.01.2009 the corporate income tax rate to 20% from 24%. We consider it prudent to make these adjustments to income tax as deferred tax assets and liabilities are going to be released or settled in 2009 using tax rate of 20%.

The deferred income tax benefits generally arise due to provisions and accrued expenses which, for tax purposes, will only be deductible when and if the invoices are received or the inventory is sold.

Net Profit for the year

Net profit for the year increased by 94% to RUB 1,256 million in 2008 from RUB 649 million in 2007. Effective cash and risk management allowed us to translate 31% increase in operating profit into 94% increase on the bottom line.

Substantial reduction in finance costs was achieved due to significant improvements in working capital, which gave room for optimization of debt levels.

Cash-flows

The table below shows our net cash flows from operating, investing and financing activities for the year ended 31 December 2008 and the year ended 31 December 2007:

	Year ended	
	31 December 2008	31 December 2007
Operating cash-flows	4,146	2,893
Movements in working capital, income tax and interest payments	(44)	(1,430)
Net cash generated from operating activities	4,102	1,463
Net cash used in investing activities	(2,562)	(2,740)
Net cash generated from financing activities	1,347	2,725
Net increase in cash and cash equivalents	2,887	1,448

Operating

The Group was able to generate cash from its operating activities by managing supplier relationships better and thereby achieving substantial improvement in operating cash flow.

Operating cash flow improved by RUB 1.3 billion to RUB 4.1 billion in 2008 as a result of overall improvement in performance.

Working capital strengthened considerably compared to the previous year on the back of improvement in trade accounts payable and other payables and accrued expenses. M.video worked with suppliers to ensure that trade accounts payable was greater than or equal to the inventory levels for each supplier. As a result of this work in 2008 Accounts Payable exceeded Inventory by RUB 763 million vs (1 billion) for 2007. Changes in other payables and accrued expenses further improved working capital by RUB 0.9 billion in 2008. Net of the change in inventories, the two items provided RUB 1.9 billion of cash in 2008 versus RUB 0.2 billion in 2007.

Investing

Net cash used in investing activities was RUB 2.6 billion for 2008. Cash amounts used to make leasehold improvements, purchase property, trade equipment and other equipment were RUB 838, 694, 220 and 518 million correspondingly.

These cash purchases were necessary to support the expansion of the retail network. Remaining investing cash flow included changes in short-term investments, purchases of intangible assets and interest received from deposits.

Financing

Net cash from financing activities was RUB 1.3 billion in 2008 compared with RUB 2.7 billion in 2007. The cash from financing activities was primarily generated from borrowings in the amount of RUB 21.3 billion and RUB 33.1 billion respectively. During the year ended 31 December 2007, cash from financing activities was also generated from proceeds from the issue of equity shares in the amount of RUB 4.9 billion. Cash was used to repay borrowings in the amount of RUB 20.0 billion and RUB 35.3 billion respectively. Diminishing volumes of borrowing demonstrate the decreasing reliance of the Group on external short-term financing. The cash from financing activities was needed to fund the further expansion of the retail network.

Net Debt

M.video's net debt, defined as long term debt + short term debt + Russian bonds + letters of credit less cash and short term investments, decreased from RUB 1.1 billion in 2007 to RUB 0.5 billion in 2008. This reduction is due to the efforts of the management to improve the operating cash flows and the working capital, while controlling the level of investing activities.

The improvements in relations with our suppliers and operating cash flows are priorities for the management team.

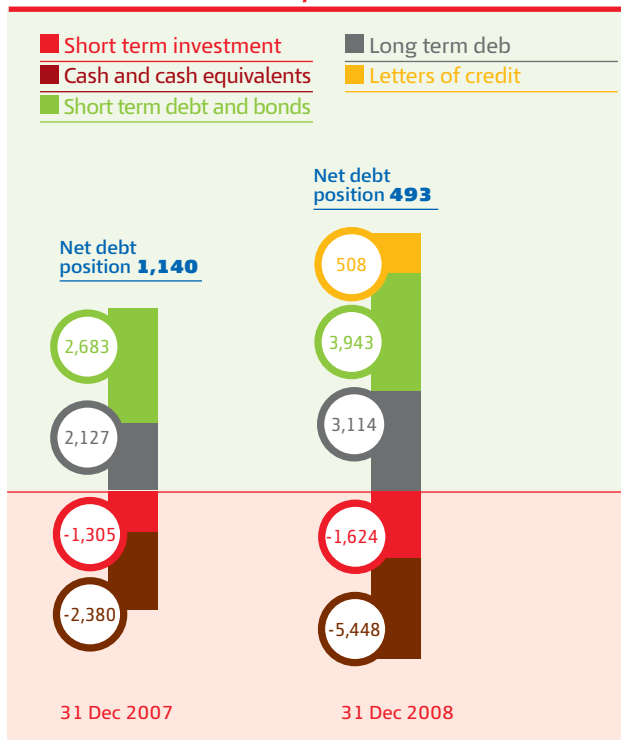
Assets & Liabilities

The financial situation of the Group has undergone further improvement for the year ended 2008. The group's net total asset position improved to RUB 8.0 billion RUB from RUB 6.6 billion in 2007 due to the operating results achieved in 2008. The company has maintained its net current assets position of RUB 4.0 billion.

Long-term incentive program ("LTIP")

In 2007 the Group adopted an LTIP program for selected members of the management team. The existing shareholders put 1% of the pre-IPO shares into a separate company with the stated purpose of allocating these shares to selected management team members to secure their relationship with the company. Each year the Board of Directors approves the list of managers who will participate in the scheme. In 2008, 46 persons were accepted into the scheme. The share allocations from existing shares are non-dilutive. In 2008, the accounts make provision for a cost allocation of some RUB 87 million, but it should be noted that this is also shown in the Retained Earnings.

NET DEBT STRUCTURE, RUB MLN



Board of Directors



From left to right¹

1. Stuart Leighton

Independent Board Member

2. Christopher Parks

Board Member,
Chief Financial Officer

3. Alexander Tynkovan

CEO/President

4. Peter Györfy

Independent Board Member,
Chairman of the Board

5. Utho Creusen

Independent Board Member

6. Ilpo Helander

Independent Board Member

7. Mikhail Kuchment

Non-executive Board Member

8. David Hamid

Independent Board Member

9. Pavel Breev

Board Member, Expansion
Director

¹

Full biographies are available at
www.mvideo.ru

Board of Management



Alexander Tynkovan
CEO / President



Pavel Breev
Expansion Director



Enrique Fernandes
Commercial Director



Janusz Lella
Retail Director



Christopher Parks
Financial Director



Christopher Mangham
IT Director



Irina Ivanova
Supply Chain Director



Olga Vasiliskova
HR Director



Maxim Zakhir
Marketing Director



Corporate Governance



A Vibrant World
of Electronics

Corporate Governance

M.video complies with the Russian Corporate Conduct Code and aspires to comply with the best international standards of corporate governance.

M.video endeavours to disclose information about the Company and the Group as a whole in a timely and regular manner, ensuring that information is made available to all shareholders at the same time. M.video tries to observe a reasonable balance between openness and transparency and protection of commercial interests. The Company fully observes the legal requirements and listing regulations of the Russian Stock Exchanges regarding public disclosure of information. We disclose information in news releases, through the approved news wires and on the www.mvideo.ru web site.

Board of Directors

We established an informal advisory council in 2003, many of whose members were elected to the Board of Directors of the Company at the Extraordinary General Meeting held on February 27, 2007.

M.video's Board of Directors has nine members, five of whom are fully independent of the Company. Our Board members bring with them extensive experience of retailing, consumer electronics and supply chain.

At 31 December 2008 the Board of Directors is chaired by Peter Györffy, an independent director.

At this date other Board members included: Mr. Alexander Tynkovan, the Company's founder and CEO, Mr. Pavel Breev, our Expansion Director and shareholder, Mr. Christopher Parks, CFO and independent directors Mr. David Hamid, Mr. Ilpo Helander, Mr. Stuart Leighton and Mr. Utho Creusen as well as non-executive director, Mr. Michael Kuchment.

The Board of Directors, in accordance with the Russian Corporate Conduct Code and general best practice, appointed an Audit Committee and a Remuneration Committee in June 2007. These committees are chaired and filled by independent Board members.

Audit Committee Report

The Audit Committee consists of two independent directors and currently comprises Stuart Leighton, Chairman of the Audit Committee and Ilpo Helander, Deputy Chairman. The committee members served throughout the period. In accordance with its terms the audit committee has sufficient recent relevant financial experience.

The Committee met five times during the year in March, April, June, October and December. Both independent members of the audit committee attended all meetings. Representatives of the external auditors, the Group Chief Financial Officer and the Group Financial Controller were invited to attend each meeting to ensure that the Committee members were fully informed and fully supported in carrying out their duties. The Head of Internal Audit was invited to several meetings during the year. Prior to the completion of the audit of the annual financial statements the Committee meets the external auditors in private.

The Board has delegated to the Audit Committee (and the Audit Committee has carried out during the year) the following:

- Monitor the integrity of the financial statements and any formal announcements relating to the Company's financial performance;
- Review critical accounting policies and financial reporting adjustments;

- Review the integrity of the Group's system of internal control and review the effectiveness of the Group's internal audit function;
- Review and monitor the external auditors' independence and objectivity, assess the effectiveness of the external audit process, approve the external auditors' remuneration and terms of engagement and make recommendations in respect of their appointment or removal;
- Review regularly the Group's policy on the supply of non-audit services by the external auditors, to approve the qualifying services and the level of non-audit fees and to monitor services provided;

The full terms of reference of the Audit Committee are available on the corporate M.video corporate website.

Stuart Leighton
Chairman of Audit Committee

Remuneration and Nomination Committee Report

The remit of the Remuneration Committee is to recommend the remuneration policy to the Board of Directors, to prepare proposals for the Board for the remuneration of individual members of the management and to advise management on the level and structure of compensation for other senior personnel.

The role of the Remuneration Committee is described in its charter which is available on the Company's website.

On 31 December 2008 the Remuneration Committee consisted of Mr. David Hamid (Chairman), Mr. Utho Creusen and Mr. Peter Györffy.

The Committee had five meetings in 2007/8.

On its first meeting in March, 2008 the Remuneration Committee re-elected its Chairman and was pleased to welcome onto the committee Utho Creusen. Utho has held many senior HR positions in major Western European countries and brings a wealth of expertise and experience to the committee.

This year the economic crisis in both Russia and the world brought many challenges for us. In many cases we were considering pay freezes or reductions in an environment where targets set at the start of the year had little relevance to the performance available. Despite this we have endeavored to retain incentive and reward for a team that continues to outperform the market. To this end a new LTIP scheme is under development and we look forward to introducing that later in 2009, focused on rewarding the creation of long term shareholder value

During the year we continued to strengthen the team adding two top caliber recruits to the executive team. Looking forward we now seek to introduce a better level of succession planning into the company at all levels

Overall I am pleased to report that the matter of remuneration policy is taken seriously by the board and that the committee, consisting entirely of independent directors, is functioning properly to look after the interests of all shareholders, using external benchmarks to set appropriate levels of remuneration.

David Hamid
Chairman of Remuneration Committee

Shareholder Information

SHARE TICKERS

Exchange	Bloomberg ticker	Reuters ticker
MICEX	MVID RM	MVID MM
RTS	MVID RU	MVID RTS

INTERNATIONAL IDENTIFICATION CODES

Name	Code
ISIN	RU000A0JPGA0

SHARE INFORMATION

Date of IPO (RTS/MICEX) 1.11.2007

Offer price	USD 6.95
Capital raised for operations	USD 203 million
Price 31.12.2008	USD 0.89
High/Low	USD 8.80/USD 0.69
Market capitalisation	USD 160 million as of December 31, 2008
Shares outstanding	179768227
Free float	29.2%



Registrar Information

OJSC "Moscow Central Depository" ("MCD")

34/8, Bolshaya Pochtovaya str., Moscow, 105082, Russia
Tel.: +7(495) 221 1335, +7(495) 221 1333, +7(495) 221 1334
E-mail: mcdepo@dol.ru
www.mcd.ru

Contacts

Headquarters

OJSC "Company "M.video" 40/12, Building 1
Nizhnaya Krasnoselskaya Str. Moscow, 107066, Russia
Tel.: + 7 495 644 2848 ext. 7064
E-mail: ir@mvideo.ru
Official website: www.ir.mvideo.ru

For investor relations purposes please contact

Denis Davydov
Investor Relations Director
Tel.: +7 (495) 644 2848 ext. 7064
E-mail: ir@mvideo.ru

Open Joint Stock Company "Company M.video" and subsidiaries

Consolidated Financial Statements
Year Ended 31 December 2008



A Vibrant World
of Electronics



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POPS 7

TUV 8

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Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended 31 December 2008

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 38 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 2008 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 2008 were approved on 24 June 2009 by:

A. Tynkovan
Chief Executive Officer



C. Parks
Chief Financial Officer



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 2008 and the consolidated income statement, 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 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.

Auditor's 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 2008, 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 CIS

Moscow
24 June 2009

Consolidated Financial Statements for the Year Ended 31 December 2008

Consolidated Balance Sheet as at 31 December 2008 (in millions of Russian Rubles)

	Notes	2008	2007
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment*	6	5,917	4,418
Intangible assets*	7	335	43
Long-term loans and notes receivable		5	5
Deferred tax assets	15	915	723
Advances paid for property, plant and equipment		-	42
Forward exchange contract		388	32
Other assets*		114	65
Total non-current assets		7,674	5,328
CURRENT ASSETS:			
Inventories	8	14,115	10,187
Trade accounts receivable	9	138	76
Other accounts receivable and prepaid expenses	10	2,043	1,758
Value added tax recoverable and other taxes receivable	11	1,489	1,590
Income tax receivable		54	6
Other current assets*		164	97
Forward exchange contract		433	-
Short-term investments*	12	1,624	1,305
Cash and cash equivalents	13	5,448	2,380
Total current assets		25,508	17,399
TOTAL ASSETS		33,182	22,727

*For information relating to prior period reclassification, refer to Notes 2, 23.

Consolidated Balance Sheet (continued)

as at 31 December 2008 (in millions of Russian Rubles)

	Notes	2008	2007
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	14	1,798	1,798
Additional paid-in capital		4,576	4,576
Retained earnings		1,615	265
TOTAL EQUITY		7,989	6,639
NON-CURRENT LIABILITIES:			
Long-term loans and borrowings	16	3,114	2,127
Deferred tax liabilities	15	446	507
Provisions*	23	119	68
TOTAL NON-CURRENT LIABILITIES		3,679	2,702
CURRENT LIABILITIES:			
Trade accounts payable	17	14,878	9,176
Other payables and accrued expenses	18	1,309	600
Advances received from customers		318	293
Bonds payable	19	-	118
Short-term loans and borrowings	21	3,943	2,565
Value added tax and other taxes payable	20	138	98
Income tax payable		263	111
Deferred revenue	22	505	305
Provisions*	23	160	104
Forward exchange contract		-	16
TOTAL CURRENT LIABILITIES		21,514	13,386
TOTAL LIABILITIES		25,193	16,088
TOTAL EQUITY AND LIABILITIES		33,182	22,727

*For information relating to prior period reclassifications, refer to Notes 2, 23.

The Notes on pages 45 to 120 form an integral part of these consolidated financial statements. The independent auditors' report is presented on page 38.

Signed on behalf of the Board of Directors: 24 June 2009.

A. Tynkovan
Chief Executive Officer



C. Parks
Chief Financial Officer



Consolidated Income Statement for the Year Ended 31 December 2008

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

	Notes	2008	2007
REVENUE	24	71,486	52,317
COST OF SALES*	25	(53,610)	(40,352)
GROSS PROFIT		17,876	11,965
Selling, general and administrative expenses*	26	(16,071)	(10,733)
Other operating income*	27	1,061	994
OTHER OPERATING EXPENSES*	28	(133)	(142)
OPERATING PROFIT		2,733	2,084
FINANCE COSTS, NET*	29	(365)	(848)
PROFIT BEFORE INCOME TAX EXPENSE		2,368	1,236
INCOME TAX EXPENSE	15	(1,112)	(587)
NET PROFIT FOR THE YEAR		1,256	649
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR BASIC AND DILUTED EARNINGS PER SHARE (IN MILLIONS)**		180	155
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (IN RUB)		6.98	4.19

*For information relating to the prior year reclassification, refer to Notes 2, 25, 26, 28 and 29.

** The Company's share registry for 30 million ordinary shares additionally issued in November 2007 was changed on 15 February 2008 (refer to Note 14).

The Notes on pages 45 to 120 form an integral part of these consolidated financial statements. The independent auditors' report is presented on page 38.

Signed on behalf of the Board of Directors: 24 June 2009.

A. Tynkovan
Chief Executive Officer



C. Parks
Chief Financial Officer



Consolidated Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2008

(In millions of Russian Rubles)

	Notes	Share capital	Additional paid in capital	Retained earnings/ (Accumulated deficit)	Total
BALANCE AS AT 1 JANUARY 2007		1,498	–	(403)	1,095
Issuance of shares	14	300	4,649	–	4,949
Share issuance costs		–	(92)	–	(92)
Related deferred income tax	15	–	16	–	16
Related current income tax	15	–	3	–	3
Recognition of share-based payment for ordinary shares previously issued	30	–	–	26	26
Related deferred income tax	15	–	–	(6)	(6)
RELATED CURRENT INCOME TAX	15	–	–	(1)	(1)
NET PROFIT FOR THE YEAR		–	–	649	649
BALANCE AS AT 31 DECEMBER 2007		1,798	4,576	265	6,639
RECOGNITION OF SHARE-BASED PAYMENT FOR ORDINARY SHARES PREVIOUSLY ISSUED	30	–	–	87	87
REVERSAL OF RELATED INCOME TAX PREVIOUSLY RECOGNIZED IN EQUITY	15	–	–	7	7
NET PROFIT FOR THE YEAR		–	–	1,256	1,256
BALANCE AS AT 31 DECEMBER 2008		1,798	4,576	1,615	7,989

The Notes on pages 45 to 120 form an integral part of these consolidated financial statements. The independent auditors' report is presented on page 38.

Signed on behalf of the Board of Directors: 24 June 2009.

A. Tynkovan
Chief Executive Officer



C. Parks
Chief Financial Officer



Consolidated Statement of Cash Flows for the Year Ended 31 december 2008 (In millions of Russian Rubles)

	Notes	2008	2007
OPERATING ACTIVITIES:			
Net profit for the year		1,256	649
Adjustments for:			
Income tax expense recognized in profit or loss	15	1,112	587
Interest expense on loans	29	631	583
Interest income	29	(226)	-
Coupon yield expense	29	10	171
Loss on sale or disposal of property, plant and equipment	6	2	-
Depreciation, amortization and impairment loss	26	863	523
Net foreign exchange loss/(gain)	27,29	734	(25)
Change in allowance for doubtful trade accounts receivable	9	-	23
Share-based payment	30	87	26
(Reversal)/accrual of allowance for doubtful notes receivable		(12)	31
Accrual of allowance for doubtful advances paid	10	90	30
Change in fair value of forward contracts	29	(937)	22
Change in allowance for goods returns		5	23
Change in allowance for obsolete and slow-moving goods	8	531	243
Change in allowance for probable tax risks other than income tax	33	-	7
Operating cash flows before movements in working capital		4,146	2,893
(Increase) in inventories		(4,469)	(3,469)
(Increase)/decrease in trade accounts receivable		(58)	545
(Increase) in other current assets		(13)	-
(Increase) in other accounts receivable and prepaid expenses		(453)	(481)
Decrease in value added tax recoverable and other taxes receivable		101	76
Decrease in deferred costs		-	17
Increase in trade accounts payable		5,462	3,367
Increase in other payables and accrued expenses		867	349
Increase in advances received from customers		25	144
Increase in warranty provision		5	-
Increase/(decrease) in value added tax and other taxes payable		40	(64)
Increase in deferred revenue		200	163
Cash generated by operations		5,853	3,540
Income tax paid		(1,254)	(1,130)
Interest paid		(629)	(894)
Forward contracts settlement		132	(53)
NET CASH GENERATED BY OPERATING ACTIVITIES		4,102	1,463

Consolidated Statement of Cash Flows (continued)

for the Year Ended 31 December 2008 (In millions of Russian Rubles)

	2008	2007
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment (including construction in progress)	(2,535)	(1,476)
Short-term investments with banks	(4,834)	(1,690)
Proceeds from settlement of short-term investments	4,766	400
Decrease/(increase) in advances paid for property, plant and equipment	42	(28)
Purchases of intangible assets	(334)	(19)
Receipts from settlements of loans and notes receivable	29	114
Cash invested in loans and notes receivable	-	(41)
Interest received	304	-
NET CASH USED IN INVESTING ACTIVITIES	(2,562)	(2,740)
FINANCING ACTIVITIES:		
Proceeds from issue of equity shares, net of issuance cost	-	4,911
Proceeds from sale of equity shares	-	28
Proceeds from long-term borrowings	2,880	74
Proceeds from short-term borrowings	18,418	33,060
Repayment of borrowings	(19,833)	(33,465)
Bonds repaid	(118)	(1,883)
NET CASH GENERATED BY FINANCING ACTIVITIES	1,347	2,725
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,887	1,448
NET FOREIGN EXCHANGE DIFFERENCE	181	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,380	932
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5,448	2,380

Refer to Notes 6, 10 and 30 for details of non-cash transactions.

The Notes on pages 45 to 120 form an integral part of these consolidated financial statements. The independent auditors' report is presented on page 38.

Signed on behalf of the Board of Directors: 24 June 2009.

A. Tynkovan
Chief Executive Officer



C. Parks
Chief Financial Officer



Notes to the consolidated financial statements for the Year Ended 31 December 2008 (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 2008 were authorized for issue in accordance with a resolution of the Board of Directors on 24 June 2009.

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 shares were admitted to trading on RTS and MICEX in the Russian Federation.

LLC "Company M.video" was incorporated on 3 December 2003. The reorganization of the Group's operational activities occurred over the period to December 2005 with the full trading operations commencing on 1 January 2006. 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 operates in two sectors: retail and wholesale. The retail sector is comprised of a chain of owned and leased stores (157 stores as at 31 December 2008; 122 stores as at 31 December 2007) and two online internet stores that sell to end users. The wholesale sector is comprised of sales to other retailers.

The accompanying consolidated financial statements include assets, liabilities and result of operations of the following Company's subsidiaries as at 31 December 2008 and 2007:

<i>Name of subsidiary</i>	<i>Nature of business</i>	<i>Proportion of ownership interest and voting power held, % 2008</i>	<i>Proportion of ownership interest and voting power held, % 2007</i>
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 2008 and 2007 the registered shareholders of OJSC "Company M.video" and their respective ownership and voting interests were as follows:

	2008	2007
Svece Limited	69.9626%	69.9626%
M.video Holding (Cyprus) Limited	0.7405%	0.8331%
Various shareholders	29.2969%	29.2043%
Total	100%	100%
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 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 standards and IFRIC interpretations in these annual consolidated financial statements:

- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions";
- IFRIC 12 "Service Concession Arrangements";
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

The Group does not currently have any transactions that fall within the scope of IFRIC 12 and 14.

IFRIC 11 "IFRS 2 – Group and Treasury Share Transaction"

The Group has adopted IFRIC Interpretation 11 insofar as it applies to consolidated financial statements. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The adoption of this interpretation did not have any effect on the financial position or performance of the Group as the Group's accounting treatments of such transactions were consistent with the new interpretation.

The Group has early adopted the following standards and interpretations in these annual consolidated financial statements:

- IAS 23 "Borrowing Costs" (revised);
- IFRIC 13 "Customer Loyalty Program".

IAS 23 "Borrowing Costs" (Revised)

The International Accounting Standards Board ("IASB") issued an amendment to IAS 23 in April 2007. The revised IAS 23 requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended IAS 23, the Group has adopted this standard on a prospective basis. Therefore, borrowing costs are capitalized on qualifying assets with commencement date on or after 1 January 2008. A total of 8 million RUB of borrowing costs has been capitalized during the year ended 31 December 2008.

IFRIC 13 "Customer Loyalty Program"

The IFRIC issued IFRIC 13 in June 2007. This interpretation requires customer loyalty credits to be accounted as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed. The Group applied this interpretation in connection with commencement of the Group's new loyalty program in May 2008. As the loyalty program was operating only for a part of this reporting period, the prior year financial information has not been affected. A portion of the revenue attributable to award credits not yet redeemed by the Group's customers as at 31 December 2008 was presented as deferred revenue in these consolidated financial statements and amounted to 113 million RUB.

Other changes in the application of the Group's accounting policies

The Group has also changed accounting policy with respect to capitalization of expenditures on low value non-current assets. The nature and principle effect of this change are described below.

Capitalization of the expenditures on low value non-current assets

Due to change in approach starting 2008 the Group capitalizes expenditures on low value non-current assets such as furniture, trade equipment and computer equipment when it is probable that the Group will derive future economic benefits from them. Such low value assets are aggregated by specific groups when purchased and depreciated over three years. In prior periods the Company expensed these items immediately when the assets were acquired. The Group applied this change in accounting prospectively as it was impracticable to determine the prior period effect of this change. However, the Group believes that any potential effect of this change resulting from its retrospective application would not be material. The total value of low value items capitalized as part of property, plant and equipment during the year ended 31 December 2008 amounted to 73 million RUB.

Reclassifications

In 2008 the Group changed presentation of certain items of assets, liabilities, income and expenses in order to enhance fair presentation of the consolidated financial statements. With this regard the Group made the following reclassifications to the prior year amounts to conform to the presentation of the current reporting period:

	<i>As previously reported</i>	<i>Reclassification</i>	<i>After reclassification</i>	<i>comment</i>
CONSOLIDATED BALANCE SHEET				
Other non-current assets	162	(97)	65	Reclassification of the short term portion of the warranty provision in respect of additional service agreements together with equal corresponding asset into current asset (Note 23).
Other current assets	-	97	97	
Provisions, non-current	165	(97)	68	
Provisions, current	7	97	104	
Property, plant and equipment	4,412	6	4,418	Other insignificant reclassifications
Construction in progress	20	(20)	-	
Intangible assets	29	14	43	
Short-term loans and notes receivable	15	(15)	-	
Short-term investments	1,290	15	1,305	
CONSOLIDATED INCOME STATEMENT				
Cost of sales	(39,953)	(399)	(40,352)	Transportation expenses incurred in 2007 related to goods delivered from suppliers outside the Russian Federation to the Group's warehouses in Moscow reclassified as part of the net cost of merchandise inventory sold (Notes 25 and 26).
Selling, general and administrative expenses	(11,132)	399	(10,733)	
Other operating income	947	47	994	Exchange difference arising from foreign currency borrowings incurred in 2007 was reclassified into finance cost (Notes 27, 28 and 29).
Other operating expenses	(167)	25	(142)	
Finance cost, net	(776)	(72)	(848)	

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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.

Business and geographic segments

The Group has only one reportable business and geographic segment thus according to IAS 14 "Segment Reporting" the Group does not present segment reporting information.

Going concern

These IFRS 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). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in rubles ("RUB"), which is the functional currency of the Company and the subsidiaries and the presentation currency for the consolidated financial statements.

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 retranslated at the rates when the 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 charged to the income statement 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.

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;
Trade marks	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 cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units 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 income statement 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.

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 income statement, 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.

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 financial statements, the Group did not hold any investments in this category.

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 income statement. 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 income statement 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.

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.

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.

Other financial liabilities

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.

Derecognition of financial liabilities

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 30.

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.

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 can not 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.

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 four 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.

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.

Revenue from services

Revenue from services is recognized in the period in which the services have been rendered.

The following conditions are also 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 income statement 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 finance cost in the consolidated income statement.

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.

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.

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 income statement as they become due. The Group does not operate any employer sponsored pension plans.

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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 2008, but are not yet effective and will be mandatory for adoption in the Group's financial statements for periods ending after 31 December 2008:

Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements"

The amendments to IFRS 1 allow an entity to determine the "cost" of investment in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statement. Both revisions will be effective for financial years beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The new requirement affects only the parent's separate financial statement and does not have an impact on the consolidated financial statements.

IFRS 2 "Share-based Payment" (revised)

The IASB issued an amendment to IFRS 2 in January 2008 that clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The adoption of this amendment will not have an impact of the financial position or performance of the Group as no events occurred that this clarification relates to.

IFRS 3 "Business Combinations" (revised) and IAS 27 "Consolidated and Separate Financial Statements" (revised)

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. The standards will have no effect on the Group's reported income or net assets on adoption.

IFRS 8 "Operating Segments"

The IASB issued IFRS 8 in November 2006. The standard is effective for annual periods beginning on or after 1 January 2009. IFRS 8 replaces IAS 14 "Segment Reporting" ("IAS 14") upon its effective date. Management concluded that the Group operates within one reportable segment; therefore adoption of the standard will not affect the Group's consolidated financial statements except for addition of certain mandatory disclosures.

IAS 1 "Presentation of Financial Statements" (revised)

The revised standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity.

The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognized income and expenses, either in one single statement, or in two linked statements. The Group is evaluating presentation options allowed by the revised standard and will make its choice on its adoption.

IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Litigations

The amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revision provides a limited scope exception for puttable instruments to be classified as equity if they fulfill a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

IAS 39 "Financial Instruments: Recognition and Measurement – Eligible Hedge Items"

These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of one-side risk in a hedge item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into such hedges.

Improvements to IFRSs

In May 2008 IASB issued its first omnibus of amendments to some of its standards, primarily with a view to removing inconsistencies and clarifying wording. All such amendments are likely to have no effect on the Group's financial statements and have not been early adopted by the Group. These changes are effective since 1st January 2009 or later.

IFRIC 15 "Agreement for the Construction of Real Estate"

IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue". IFRIC 15 will not have an impact on the consolidated financial statements because the Group does not conduct such activity.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risk that qualify for hedge accounting in the hedge of a net investment, where within the group hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The interpretation will not have an impact of the consolidated financial

statements because the Group does not perform transactions to which it relates.

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 relevant to the Group's operations because it does not distribute non-cash assets to owners.

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 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.

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 for any items considered to be obsolete. The provision represents the difference between the cost of inventory and its estimated net realizable value.

The net realizable value allowance was 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 – a provision is applied based on management estimate of the carrying value of the inventory;
- (d) Additional amount is accrued if there is actual evidence of a decline in selling prices after 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 amount of inventories.

Allowances for doubtful accounts receivable

Allowance for doubtful accounts receivable is established if there is objective evidence that the Group will not be able to collect the amounts due according to original contractual terms and reduces accounts receivable to the amounts expected to be collected. In estimating uncollectible amounts, management considers factors such as current overall economic conditions, historical customer performance and anticipated customer performance. The Group's provisions cover individual balances where there is evidence that losses are probable as at the balance sheet date. Management uses significant judgment in estimating uncollectible amounts. While management believes its processes effectively address the exposure for doubtful accounts receivable, changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts receivable recorded in the Group's consolidated financial statements.

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 additional taxes will be due. Refer to Note 33 for further discussion.

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.

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 30.

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. During the year ended 31 December 2007 the Group reassessed useful lives of the trade equipment prompted by revised renovation plans, which increased the consolidated depreciation expense during the current financial year by 7 million RUB (2007 – 22 million RUB).

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 cash-generating unit 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 cash-generating unit 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. As at 31 December 2008, the estimated liability for unredeemed points was 113 million RUB.

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 allowances 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.

Allowance for goods returns

The Group recognizes allowance for goods returns by the customers as a reduction of sales in the period in which the underlying sales are recognized. The amount of this allowance is calculated on the basis of management's best estimate of the amount of product that will ultimately be returned by customers.

6/

Property, Plant and Equipment

Property, plant and equipment as at 31 December 2008 and 2007 consisted of the following:

	Buildings	Leasehold improvements	Construction in progress	Trade equipment	Security equipment	Other	Total
COST							
As at 31 December 2006	2,205	527	35	410	197	380	3,754
Additions	-	-	1,462	-	-	-	1,462
Transfers	83	787	(1,491)	191	122	308	-
Disposals	-	-	-	-	-	-	-
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
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSS							
As at 31 December 2006	9	42	-	89	66	89	295
Charge for the year	112	91	-	101	71	128	503
Disposals	-	-	-	-	-	-	-
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
NET BOOK VALUE							
AS AT 31 DECEMBER 2007	2,167	1,181	6	411	182	471	4,418
AS AT 31 DECEMBER 2008	2,738	1,797	58	473	208	643	5,917

As at 31 December 2008 there was no property, plant and equipment which served as collateral for the Group's borrowings (31 December 2007: 418 million RUB), for more details refer to Notes 16 and 21.

As at 31 December 2008 and 2007 there were no commitments for the acquisition of property, plant and equipment.

During the year 2008 the borrowing costs of 8 million RUB (2007: nil) were capitalized as part of the cost of the Group's property, plant and equipment. Capitalization rate for 2008 was 7% (2007: not applicable).

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 cash-generating units representing each city in which the Group's stores are located. The recoverable amount of the cash-generating units 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 3% to 8% and the expected inflation 10%. 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 was 21.56%. 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 accordance with IAS 36 "Impairment of Assets" the recoverable amount of each individual CGU was compared with its carrying amount. An impairment loss in the amount 35 million RUB was recognized and included into selling, general and administrative expenses as part of "Depreciation, amortization and impairment loss". The impairment loss relates to capital expenditures incurred at year-end to open new store in Ulyanovsk. No other impairment losses were identified.

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 2008 and 2007 consisted of the following:

	Software licenses	Trade marks	Total
COST			
As at 31 December 2006	34	2	36
Additions	31	-	31
Disposals	-	(1)	(1)
As at 31 December 2007	65	1	66
Additions	323	11	334
Disposals	-	-	-
As at 31 December 2008	388	12	400
ACCUMULATED AMORTIZATION			
As at 31 December 2006	3	-	3
Charge for the year	20	-	20
As at 31 December 2007	23	-	23
Charge for the year	41	1	42
As at 31 December 2008	64	1	65
NET BOOK VALUE			
AS AT 31 DECEMBER 2007	42	1	43
AS AT 31 DECEMBER 2008	324	11	335

During 2008 the Group incurred expenditures in the total amount of 334 million RUB which for the most part related to the acquisition of software for the customer loyalty program and implementation of additional functionality of the Group's ERP system SAP.

Amortization expense has been included in selling, general and administrative expenses.

As at 31 December 2008 and 2007 the Group had commitments for the acquisition of software licenses. Refer to Note 33 for further details.

8/

Inventories

Inventories as at 31 December 2008 and 2007 consisted of the following:

	<i>2008</i>	<i>2007</i>
Goods for resale	14,646	11,032
Other inventories	977	132
Less: allowance for obsolete and slow moving goods	(1,508)	(977)
TOTAL	14,115	10,187

For information relating to the cost of inventory recognized as an expense during the year ended 31 December 2008 and 2007 refer to Note 25.

As at 31 December 2008 the value of inventory pledged as collateral for Group's borrowings was 10,063 million RUB (31 December 2007: 9,988 million RUB).

9/

Trade accounts receivable

Trade accounts receivable as at 31 December 2008 and 2007 consisted of the following:

	2008	2007
Trade accounts receivable from third parties	223	165
Allowance for goods returns	(62)	(66)
Allowance for doubtful trade accounts receivable	(23)	(23)
TOTAL	138	76

Trade receivables are non-interest bearing and are generally on 7-30 day terms.

Ageing of past due but not impaired trade accounts receivable:

	2008	2007
30-60 days	8	3
60-90 days	-	-
90-120 days	-	9
120+ days	-	21
TOTAL	8	33

Movement in the allowance for doubtful trade accounts receivable:

	2008	2007
Balance at the beginning of the year	23	-
Impairment losses recognized on accounts receivable	2	23
Amounts written off as uncollectible	-	-
Amounts recovered during the year	(2)	-
Impairment losses reversed	-	-
BALANCE AT THE END OF THE YEAR	23	23

The Group did not have any individually significant impaired trade accounts receivable balances as at 31 December 2008.

For details relating to trade accounts receivable from related parties refer to Note 31.

Refer to Note 34 for discussion of concentration of credit risk.

10/

Other accounts receivable and prepaid expenses

Other accounts receivable and prepaid expenses as at 31 December 2008 and 2007 consisted of the following:

	2008	2007
Advances paid to suppliers and prepaid expenses	1,870	1,284
Other accounts receivable from third parties	209	479
Other accounts receivable from related parties	-	31
Advances paid to related parties	54	-
Less: allowance for doubtful accounts	(90)	(36)
TOTAL	2,043	1,758

For details relating to other accounts receivable from related parties refer to Note 31.

Ageing of past due but not impaired other accounts receivable from third and related parties is as follows:

	2008	2007
30-60 days	-	-
60-90 days	-	1
90-120 days	-	-
120+ days	-	45
TOTAL	-	46

Movement in the allowance for doubtful accounts:

	2008	2007
Balance at the beginning of the year	36	6
Impairment losses recognized on other receivables	90	36
Amounts written off as uncollectible	(36)	-
Amounts recovered during the year	-	-
Impairment losses reversed	-	(6)
BALANCE AT THE END OF THE YEAR	90	36

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

The receivable impaired as at 31 December 2008 was aged 120+ days (31 December 2007: 120+ days).

Carrying value of other accounts receivable approximates their fair value.

11/

Value Added Tax Recoverable and Other Taxes Receivable

Value added tax recoverable and other taxes receivable as at 31 December 2008 and 2007 consisted of the following:

	2008	2007
VAT recoverable	1,484	1,580
Other taxes receivable	5	10
TOTAL	1,489	1,590

12/

Short-term Investments

Short term loans and notes receivable as at 31 December 2007 and 2006 consisted of the following:

	Interest rate	Maturity	2008	2007
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	-
Short-term deposit in bank	8.8%	May 2008	-	750
Short-term deposit in bank	9.1%	May 2008	-	540
Total short- term deposits in banks			1,624	1,290
Promissory notes receivable from third parties	0%	December 2009 (2007: April 2008)	19	12
Less: provision for doubtful promissory notes receivable			(19)	-
Unsecured RUB loans given to third parties	0%	February 2008	-	3
Total short-term loans and notes receivable			-	15
TOTAL			1,624	1,305

Promissory notes receivable from third parties represent promissory notes received from DVI Volga. The promissory notes are unsecured and non-interest bearing.

As at 31 December 2008 short-term deposits in banks (Note 34) were denominated in EUR (31 December 2007: in RUB). During 2008 the Group recognized foreign currency income in the total amount of 266 million RUB as an exchange difference arising from deposits denominated in the currencies other than RUB.

13/

Cash and Cash Equivalents

Cash and cash equivalents as at 31 December 2008 and 2007 consisted of the following:

	2008	2007
Petty cash and cash in stores	148	67
Cash at banks	660	632
Cash in transit	529	1,241
Short-term deposits (Note 34)	4,111	440
TOTAL	5,448	2,380

As at 31 December 2008 and 2007 the fair value of cash and cash equivalents is equal 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.

Cash equivalents earn interest ranging from 0.1% to 7%.

14/

Share Capital

Fully paid issued ordinary shares

As at 1 January 2007 the Company had 29,953,645,400 issued ordinary shares with a par value of 0.05 RUB per share.

As at 29 June 2007 the shareholders of OJSC "Company M.video" approved a reverse share split of 1:200. As at 19 September 2007 the Company registered this change with the appropriate governmental agencies and changed the charter and share registry from 29,953,645,400 shares at 0.05 RUB per share to 149,768,227 shares at 10 RUB per share.

As at 1 November 2007 the Company issued 30,000,000 additional ordinary shares at 10 RUB per share. Changes in the charter were not registered until 15 February 2008.

As at 31 December 2008 the Company had 179,768,227 ordinary shares in issue each having par value of 10 RUB per share.

Authorized ordinary shares

As at 1 January 2007 the Company had 30,120,705,400 authorized ordinary shares with a par value of 0.05 RUB per share. As part of the reverse share split (as explained above), all previously authorized shares with a par value of 0.05 RUB per share were withdrawn. Subsequent to this, fully paid issued ordinary shares were equal to the number of authorized ordinary shares. Authorized ordinary shares were reduced to 149,768,227.

As at 6 September 2007 the shareholders of OJSC "Company M.video" approved an additional 60,000,000 authorized ordinary shares at 10 RUB per share, of which 30,000,000 were issued and fully in preparation for the initial public offering which was closed on 1 November 2007. Changes in the charter were registered as at 19 September 2007.

As at 31 December 2008 the Company had 209,768,227 of authorized ordinary shares each having par value of 10 RUB per share.

Dividends

No dividends have been paid or declared by the Company during the years ended 31 December 2008 and 2007. 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 154 million RUB (unaudited) of undistributed and unreserved earnings as at 31 December 2008 (31 December 2007: 22 million RUB, unaudited).

15/

Income tax

The Group's income tax expense for the years ended 31 December 2008 and 2007 was as follows:

	2008	2007
Current tax expense	(1,358)	(908)
Deferred tax benefit	246	321
TOTAL INCOME TAX EXPENSE	(1,112)	(587)
INCOME TAX RECOGNIZED IN EQUITY	7	12

The tax effect on the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2008 and 2007 is presented below:

	2008	2007
DEFERRED TAX ASSETS		
Provision for obsolete and slow-moving inventory	301	235
Bonuses allocated to inventories	225	-
Deferred revenue	101	73
Accrued expenses	71	137
Difference in depreciable value of property, plant and equipment	58	37
Salary-related accruals	54	59
Accrual for unused vacation	23	17
Allowance for doubtful debt	22	22
Adjustment on unrealized profit	22	41
Losses due to inventory shortages	-	74
Other items	38	28
TOTAL	915	723
DEFERRED TAX LIABILITIES		
Difference in depreciable value of property, plant and equipment	277	358
Forward exchange contracts	164	-
Adjustment on supplier allowances and other adjustments on accounts payable	5	108
Other items	-	41
TOTAL	446	507

The statutory tax rate effective in the Russian Federation during years 2008 and 2007 was 24%. According to Federal Law No. 224-FZ dated 26 November 2008 the changes were made to Tax Code of the Russian Federation and corporate profit tax rate was reduced to 20%. As at 31 December 2008 the Group measured deferred tax liabilities and deferred tax assets using tax rate 20% (2007: 24%), which is the rate expected to be applied in the period in which the liability is settled or the asset is realized.

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

	2008	2007
PROFIT BEFORE INCOME TAX EXPENSE	2,368	1,236
THEORETICAL INCOME TAX EXPENSE AT STATUTORY RATE OF 24%	(568)	(296)
ADJUSTMENTS DUE TO:		
Losses due to inventory shortages	(280)	(82)
Other non-deductible expenses, net	(170)	(149)
Income tax provisions	-	(55)
Income tax expense on dividends (9%)	-	(5)
Reduction in tax rate (from 24% to 20%)	(94)	-
INCOME TAX EXPENSE	(1,112)	(587)

Taxable temporary differences in relation to investments in subsidiaries for which deferred tax liabilities have not been recognized as at 31 December 2008 amounted to 479 million RUB (31 December 2007: 344 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/

Long-term loans and borrowings

Long-term loans and borrowings as at 31 December 2008 and 2007 consisted of the following:

	<i>Interest rate</i>	<i>Maturity</i>	<i>2008</i>	<i>2007</i>
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	-
Secured third parties loan from banks	2.74% to 4.5% + EURI-BOR (1m) and (3m)	January – March 2009	-	2,127
TOTAL			3,114	2,127

As at 31 December 2008 the loans and borrowings have been secured by the Group's inventory (2007: property, plant and equipment and inventory, refer to Notes 6 and 8).

Sberbank

The long-term debt to Sberbank is represented by the loan received in September 2008 denominated in Rubles. The loan matures in March 2010, interest rate is 13.75% (fixed). As of 31 December 2008 the outstanding balance was 1,000 million RUB. Loan is secured by the Group's inventory for the total amount of 927 million RUB.

The second part of the long-term debt to Sberbank is represented by the loans received in September 2008 denominated in EUR. The loans mature in March 2010, interest rate is 11.25% (fixed).

As at 31 December 2008 the outstanding balance was 2,114 million RUB. Loans are secured by the Group's inventory for the total amount of 1,970 million RUB.

17/

Trade accounts payable

Trade accounts payable as at 31 December 2008 and 2007 consisted of the following:

	2008	2007
Trade accounts payable to third parties	14,816	9,109
Trade accounts payable to related parties	62	67
TOTAL	14,878	9,176

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 31.

18/

Other payables and accrued expenses

Other payables and accrued expenses as at 31 December 2008 and 2007 consisted of the following:

	2008	2007
Letters of credit payable	508	-
Accrued salaries and bonuses	311	239
Accrued rent and utilities	120	-
Accrued unused vacation	113	70
Accrued consulting fees	74	-
Accounts payable for property, plant and equipment	-	213
Other current liabilities to related parties	32	20
Other payables and accrued expenses	151	58
TOTAL	1,309	600

As at 31 December 2008 the Group has 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 is 1.75%. Letters of credit payable are secured by the Group's inventory in amount of 3,661 million RUB (2007: nil million RUB).

19/

Bonds Payable

Bonds payable as at 31 December 2008 and 2007 consisted of the following:

	2008	2007
Corporate bonds	-	118

In 2008 the Group settled the remaining amount of RUB denominated non-collateralized bonds issued in November 2006 which had the maximum term of 3 years. The bonds had par value of 1,000 RUB and the coupon interest rate paid on the bonds fixed at 10% for the first year only, after which the Group set a new coupon interest rate. After the setting of the revised coupon rate, the bondholders had the option to either retain or redeem bonds held. As at 18 November 2007 the coupon interest rate was set at 9.5% for a period of 12 months.

20/

Value Added Tax and Other Taxes Payable

Taxes payable as at 31 December 2008 and 2007 consisted of the following:

	2008	2007
Payroll taxes	79	59
VAT payable	13	18
Other taxes payable	46	21
TOTAL	138	98

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Short-term Loans and Borrowings

Short-term loans and borrowings as at 31 December 2008 and 2007 consisted of the following:

	<i>Interest rate</i>	<i>2008</i>	<i>2007</i>
Secured third parties credit facilities (EUR)	2.74% +EuroLIBOR (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%+USDLibor (3m)	441	-
Secured third parties credit facilities (USD)	8% to 8.5%	-	1,963
Secured third parties credit facilities (EUR)	7.39% to 7.84%	-	602
Total principal amount of short-term loans		3,929	2,565
Interest payable		14	-
TOTAL		3,943	2,565

As at 31 December 2008 the loans and borrowings have been secured by the Group's inventory (2007: property, plant and equipment and inventory, refer to Notes 6 and 8).

MDM Bank

The short-term debt to MDM Bank is mainly represented by short-term portion of the long-term credit line received in September 2006, denominated in EUR (limit is 39.2 million EUR). The loan matures in February-March 2009. Interest rate is 2.74% + EuroLIBOR (3m). As at 31 December 2008 the outstanding liability was 1,624 million RUB. Credit line is secured by the Group's inventory for the total amount of 1,856 million RUB.

Rosbank

The short-term debt to Rosbank is mainly represented by credit line received in June 2008, denominated in EUR (limit is 63 million EUR). The loan matures in February 2009. Interest rate is 9.5% (fixed). As at 31 December 2008 the outstanding liability was 622 million RUB. Loans are secured by the Group's inventory for 1,110 million RUB.

MCB

The short-term debt to MCB is mainly represented by the loans received in April and December 2008, denominated in Rubles. The loans mature in January, February, July and December 2009 with interest rates ranging from 5% + USDLibor (3m). As at 31 December 2008 the outstanding liability was 441 million RUB. Loans are secured by the Group's inventory for a total amount of 508 million RUB.

Raiffaisen Bank

The short-term debt to Raiffaisen Bank is mainly represented by a loan received in August 2008, denominated in EUR. The loan matures in July 2009, interest rate is 3.1% + EURIBOR (1m).

As at 31 December 2008 the outstanding liability was 1,242 million RUB. Loans are secured by the Group's inventory for a total amount of 31 million RUB.

22/

Deferred Revenue

Deferred revenue as at 31 December 2008 and 2007 consisted of the following:

	2008		2007	
	Customer loyalty program "M.video Bonus"	Other programs	Customer loyalty program "M.video Bonus"	Other programs
As at 1 January	-	305	-	73
Revenue deferred during the year	157	392	-	305
Revenue released to the consolidated income statement	(44)	(305)	-	(73)
TOTAL	113	392	-	305

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

23/

Provisions

Provisions as at 31 December 2008 and 2007 consisted of the following:

	<i>Non-current</i>		<i>Current</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Warranty provision – in respect of additional service agreements (ASA) (i)	114	65	150	97
Warranty provision – repair of goods (ii)	5	3	10	7
TOTAL	119	68	160	104

The movement in provisions during the years ended 31 December 2008 and 2007 is represented as follows:

	<i>Warranty–ASA –</i>	<i>Warranty–Repair of goods</i>
Balance as at 1 January 2007	-	10
Additional provisions recognized	162	-
Balance as at 1 January 2008	162	10
Additional provisions recognized	102	5
BALANCE AS AT 31 DECEMBER 2008	264	15

- (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 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.

The amount of 97 million RUB relating to the short-term portion of the warranty provision in respect of additional service agreements as at 31 December 2007, as well as corresponding asset, were reclassified from non-current to current assets of the consolidated balance sheet.

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Revenue

Revenue for the years ended 31 December 2008 and 2007 consisted of the following:

	2008	2007
Retail revenue (including internet)	68,131	48,410
Wholesale revenue	3,350	3,900
Other	5	7
TOTAL	71,486	52,317

Retail revenue includes sales of ASA certificates in the amount of 1, 820 million RUB for year 2008 (2007 – 801 million RUB).

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Cost of Sales

Cost of sales for the years ended 31 December 2008 and 2007 consisted of the following:

	2008	2007
Cost of goods and services	56,409	41,943
Inventory losses	711	401
Change in allowance for obsolete and slow-moving inventory	531	243
Supplier bonuses	(4,041)	(2,235)
TOTAL	53,610	40,352

Transportation expenses incurred in 2007 with relation to goods delivered from suppliers outside the Russian Federation to the Group's warehouse in Moscow in the amount of 399 million RUB were reclassified from selling, general and administrative expenses to cost of sales as part of the net cost of merchandise inventory sold (see also Notes 3 and 26).

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Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended 31 December 2008 and 2007 consisted of the following:

	2008	2007
Payroll and related taxes	4,386	3,058
Lease expenses	3,101	1,940
Advertising and promotional expenses	2,462	1,646
Transportation	1,081	732
Warehouse services	1,090	794
Depreciation, amortization and impairment loss	863	523
Security	463	295
Service centre	356	247
Consulting services	346	162
Utilities expense	274	222
Bank charges	267	189
Repairs and maintenance	266	184
Packaging and raw materials	203	153
Travel	167	96
Communication	151	91
Legal and audit expenses	100	24
Bad debt expense	90	53
Other	405	324
TOTAL	16,071	10,733

Payroll and related taxes include 532 million RUB contribution to the state pension fund (2007: 244 million RUB) and social and medical insurance in the amount of 162 million RUB (2007: 218 million RUB).

Transportation expenses incurred in 2007 with relation to goods delivered from suppliers outside the Russian Federation to the Group's warehouse in Moscow in the amount of 399 million RUB were reclassified from selling, general and administrative expenses to cost of sales as part of the net cost of merchandise inventory sold (see also Notes 3 and 25).

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Other operating income

Other operating income for the years ended 31 December 2008 and 2007 includes commissions received from banks on loans provided to customers, goods delivery, income from leases and sub-leases of retail space and other items. Other operating income for the year ended 31 December 2008 included foreign currency income in the amount of 153 million RUB (31 December 2007: 47 million RUB).

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Other operating expenses

Other operating expenses for the year ended 31 December 2008 mainly consisted of allowance for doubtful loans receivable in the amount of 12 million RUB (31 December 2007: 31 million RUB) and other individually insignificant items.

Exchange difference arising from foreign currency borrowings incurred in 2007 in the amount of 72 million RUB was reclassified from "Other operating expenses" to "Finance cost, net" (see also Notes 2 and 29).

29/

Finance costs, net

Net amount of finance costs for the years ended 31 December 2008 and 2007 consisted of the following:

	2008	2007
Interest on bank loans	631	505
Coupon yield on corporate bonds	10	171
Exchange difference from foreign currency borrowings	887	72
Interest on non-bank loans	-	78
Interest income	(226)	-
(Gain)/loss on realized forward contracts	(148)	53
Change in fair value of forward contracts	(789)	(31)
TOTAL	365	848

Exchange difference arising from foreign currency borrowings incurred in 2007 in the amount of 72 million RUB was reclassified from "Other operating expenses" to "Finance cost, net" (see also Notes 2 and 28).

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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 Open Joint Stock Company "Company M.video" from the 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.

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 2008 prior to the first vesting date (1 April 2008), 123,000 shares were forfeited. Of the remaining 499,500 granted shares, 166,500 shares which vested on 1 April 2008 (tranche one) were exercised. Then, before 31 December 2008 10,000 more shares were forfeited. Below is the summary of the arrangements that were in existence as at 31 December 2008:

<i>Option series</i>	<i>Number</i>	<i>Grant date</i>	<i>Vesting date</i>	<i>Expiry date</i>	<i>Exercise price (RUB)</i>	<i>Fair value at grant date (RUB)</i>
Issued 1 October 2007	161,500	1 October 2007	1 April 2009	30 April 2009	10	164.67
Issued 1 October 2007	161,500	1 October 2007	1 April 2010	30 April 2010	10	165.66

As at the end of the comparative reporting period the following share-based payments arrangements under LTIP Series one were in existence:

<i>Option series</i>	<i>Number</i>	<i>Grant date</i>	<i>Vesting date</i>	<i>Expiry date</i>	<i>Exercise price (RUB)</i>	<i>Fair value at grant date (RUB)</i>
Issued 1 October 2007	207,500	1 October 2007	1 April 2008	30 April 2008	10	163.92
Issued 1 October 2007	207,500	1 October 2007	1 April 2009	30 April 2009	10	164.67
Issued 1 October 2007	207,500	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 2008 is 165.17 RUB (2007: 164.75 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.

<i>Inputs into the model</i>	<i>LTIP 1 share options vested on 1 April 2009</i>	<i>LTIP 1 share options vested on 1 April 2010</i>
Grant date share price, RUB	173.40	173.40
Exercise price, RUB	10	10
Expected volatility	20.68%	20.68%
Option life (years)	1.50	2.50
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 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 37 million RUB has been recognized during the year ended 31 December 2008 in respect of share-based payments (31 December 2007: 26 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 26). The corresponding entry has been reflected within retained earnings.

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.

Further, before 31 December 2008 99,000 shares of LTIP series two were forfeited.

Below is the summary of the arrangements that were in existence as at 31 December 2008:

<i>Option series</i>	<i>Number</i>	<i>Grant date</i>	<i>Vesting date</i>	<i>Expiry date</i>	<i>Exercise price (RUB)</i>	<i>Fair value at grant date (RUB)</i>
Issued 1 April 2008	219,000	1 April 2008	1 April 2009	30 April 2009	10	168.28
Issued 1 April 2008	219,000	1 April 2008	1 April 2010	30 April 2010	10	169.69
Issued 1 April 2008	219,000	1 April 2008	1 April 2011	30 April 2011	10	170.39

No share based arrangements under LTIP Series two were in existence during comparative reporting period.

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

<i>Inputs into the model</i>	<i>LTIP 2 share options vested on 1 April 2009</i>	<i>LTIP 2 share options vested on 1 April 2010</i>	<i>LTIP 2 share options vested on 1 April 2011</i>
Grant date share price, RUB	177.45	177.45	177.45
Exercise price, RUB	10	10	10
Expected volatility	26.85%	26.85%	26.85%
Option life years	1	2	3
Dividend yield	0%	0%	0%
Risk-free interest rate	10%	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 50 million RUB has been recognized during the year ended 31 December 2008 in respect of share-based payments under the Company's LTIP Series two (2007: nil). 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 26).

The following reconciles the outstanding share options granted under the employee share plan at the beginning and end of the financial year 2008:

	LTIP Series 1		LTIP Series 2	
	Number of options	Weighted average exercise price (RUB)	Number of options	Weighted average exercise price (RUB)
Balance as at 1 January 2007	-	-	-	-
Granted during the period	622,500	10	-	-
Balance as at 31 December 2007	622,500	10	-	-
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	-	-
Expired during the period	-	-	-	-
Balance as at 31 December 2008	323,000	10	657,000	10
Exercisable at the end of the financial year	-	-	-	-

The services received in respect of the share-based payments discussed above do not qualify for recognition as assets.

The equity settled share-based payments made during the year did not result in a dilution of shares due to reasons outlined above.

Balance at the end of the financial year

The share options outstanding at the end of the financial year 2008 have an exercise price of 10 RUB (2007: 10 RUB), and the weighted average remaining contractual life is 396 days (2007: 486 days).

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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 2008 and 2007, also refer to Notes 10, 17, 18):

	2008		31 Decem- ber 2008		2007		31 Decem- ber 2007	
	Sales to related parties	Purchases from re- lated parties	Amounts owed by related parties	Amounts owed to related parties	Sales to related parties	Purchases from re- lated parties	Amounts owed by related parties	Amounts owed to related parties
ENTITIES UNDER COMMON CONTROL								
LLC "Noviy Format"	-	404	-	20	-	25	-	-
LLC "Universal service"	-	366	-	29	-	91	-	67
Transservice Group of Companies, LLC "Technovideo Service", LLC "Transser- vice-95"	28	268	50	3	21	195	28	-
LLC "Avto-Express"	-	144	-	7	-	125	-	10
LLC "Private Security Agency Bars-SB"	2	134	4	-	1	100	3	-
LLC "Avtoritet"	1	52	-	3	-	36	-	-
LLC "Bars"	-	11	-	-	-	15	-	-
LLC "Company Profi Center"	-	7	-	-	-	-	-	-
LLC "MV. Stil"	1	-	-	-	-	-	-	-
LLC "PSK Logistic Service"	-	-	-	-	-	1,379	-	10
LLC "Olga-Alternativa"	-	-	-	-	-	12	-	-

<i>Loans from/to related party</i>	2008		31 Decem- ber 2008		2007		31 Decem- ber 2007	
	<i>Interest income</i>	<i>Interest expense</i>	<i>Amounts owed by related parties</i>	<i>Amounts owed to related parties</i>	<i>Interest income</i>	<i>Interest expense</i>	<i>Amounts owed by related parties</i>	<i>Amounts owed to related parties</i>
ENTITIES UNDER COMMON CONTROL								
Goodhall Ltd	-	-	-	-	-	45	-	-
Velga Ltd	-	-	-	-	-	33	-	-
LLC "Noviy Format"	-	-	-	-	2	-	-	-

The ultimate shareholder

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 2008.

Immediate parent entity

Svece Ltd owns 69.9626% of the ordinary shares of OJSC "Company M.video" as at 31 December 2008 and 2007.

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 2008, the Group has not recorded any impairment of accounts receivable relating to amounts owed by related parties (2007: 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.

Transactions with other related parties

The nature of transactions with related parties is as follows:

- LLC "Olga Alternativa" – for the period ended 31 December 2007 the transaction related to the purchase of leasehold improvements;
- LLC "Bars" – provided courier services to the Group;
- LLC "Private Security Agency Bars – SB" – provided store and head office security services;
- LLC "Noviy Format" – for the period ended 31 December 2007 the transaction related to rental of property; for the period ended 31 December 2008 the transaction related to purchase of the buildings;
- Transservice Group of Companies – provided after sale and other servicing of the Group's merchandise;
- LLC "Avtorit" – provided the brand name "Smart-on" to the Group under a license agreement and two trading premises in Moscow under a lease agreement;
- LLC "Avto-Express" – provided a car leasing service to the Group and logistic services;
- LLC "PSK Logistics service" – is a merchandise supplier for the Group;
- LLC "Universal Service" – provided after sale servicing and other related servicing of merchandise sold in connection with additional service agreements;
- LLC "Company Profi Center" – provided servicing of inventories;
- LLC "MV. Stil" – provided rent services;
- Goodhall Ltd – provided financing to the Group;
- Velga Ltd – provided financing to the Group.

Compensation of key management personnel of the Group

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

	2008	2007
Short-term benefits*	143	116
Share-based payments	35	13
TOTAL	178	129

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

As at 31 December 2008 payable to key management personnel amounted 32 million RUB (2007 – nil).

The number of key management positions increased from 15 in 2007 to 16 in 2008 due to appointment of one independent director.

The Group did not provide any 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 4 million RUB and 3 million RUB respectively for the years ended 31 December 2008 and 2007 and is included in the amounts stated above.

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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

	2008	2007
Minimum lease payments	3,101	1,930
Contingent rentals	-	10
	3,101	1,940

Non-cancellable operating lease commitments

Future minimum rentals payable under non-cancelable operating leases for premises occupied as at 31 December 2008 and 2007 are as follows:

	2008	2007
Within one year	3,471	2,320
After one year but not more than five years	12,608	7,212
More than five years	5,467	5,751
	21,546	15,283

Future minimum rentals payable under committed, non-cancelable future store operating leases for premises as at 31 December 2008 and 2007 are as follows:

	2008	2007
Within one year	470	439
After one year but not more than five years	1,409	1,998
More than five years	2,354	2,527
	4,233	4,964

Future minimum rental payments will be subject to value added tax.

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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.

Taxation and regulatory environment

Russian tax, currency and customs legislation is subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to business transactions of the Group may be challenged by the relevant authorities enabled by law to impose fines and penalties. Recent events within the Russian Federation suggest that the tax, customs or other relevant government authorities are taking a more assertive position in their interpretation of the legislation and assessments made and as a result, it is possible that the transactions that have not been challenged in the past may be challenged in the future. Generally, fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. The Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation.

Management reviews the Group's compliance with applicable tax regulations and current interpretations. Furthermore, management regularly assesses the potential financial exposure relating to tax contingencies for which the three year tax inspection right has expired but, which, under certain circumstances, may be challenged by regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of such open tax positions may exist. As at 31 December 2007 the management has recorded a provision of 87 million RUB for income tax and 7 million RUB for other tax contingencies in these consolidated financial statements. During 2008 the Group has not made any changes to its provisions and has not identified any other material contingencies which have not been in existence as at the end of the previous annual period. No tax provisions were utilized during the year ended 31 December 2008.

Russian transfer pricing legislation introduced on 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied for similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice in this respect is contradictory.

Tax liabilities from inter-company transactions are determined using actual transaction prices.

It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of such challenge cannot be reliably estimated, however, it may be significant to the financial condition and operations of the Group.

The Group has identified other possible tax contingencies in respect of issues unrelated to customs (see below) or transfer pricing. No provision has been recorded in respect of these issues. The range of potential exposures and details of individual tax positions have not been disclosed to avoid prejudicing the Group's position.

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 2008, 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. During the year the relative proportion of direct imports from foreign manufacturers and purchases from the Russian subsidiaries of foreign manufacturers have been increasing and the purchases from Russian wholesalers and resellers decreasing.

As described above in *Taxation and regulatory environment* section, the relevant authorities are taking 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 IFRS 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 2008, the Group had a total commitment of approximately 1 million EUR per annum for technical support services with respect to existing SAP licenses and software. The Group uses SAP software for finance and human resources.

Further, as at 31 December 2008, the Group had finished the second 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 commitment for the remainder of the contract, including license fees and annual support, is 35 million RUB. The total commitment is split as follows:

2009 FY	17.5 million RUB;
2010 FY	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.

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 2008 and 2007.

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Financial risk management objectives and policies

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 year ended 31 December 2008 and 31 December 2007.

The capital structure of the Group consists of debt, which includes borrowings (Notes 16 and 20), cash and cash equivalents (Note 13), short-term investments (Note 12) 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.

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:

	2008	2007
FINANCIAL ASSETS		
Fair value through profit or loss (FVTPL)	821	32
Loans and receivables (including cash and cash equivalents)	7,424	4,239
FINANCIAL LIABILITIES		
Fair value through profit or loss (FVTPL)	-	16
Liabilities carried at amortized cost	23,244	14,586

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. The Group has transactional currency exposures. Such exposures arise from: (1) purchases by an operating unit with delayed credit terms in currencies other than the unit's functional currency. The Group does not attempt to hedge this risk, as individually these amounts are too small to warrant hedges and the payment dates are too frequent to attempt to do a collective hedge; (2) long-term loans which are denominated in Euros. The Group uses forward exchange contracts to eliminate the currency exposures on loan repayments. The forward exchange contracts must be in the same currency as the foreign currency item. The Group does not designate forward contracts as hedges for accounting purposes.

The Group does not have transactional currency exposure relating to revenue as sales occur on the territory of the Russian Federation and are denominated in RUB.

The carrying amount of the Group's foreign monetary assets and liabilities denominated in foreign currencies which goes in line with exchange rate variations (including the Group's forward contracts carried at fair value) at the reporting date are as follows:

	<i>Liabilities</i>		<i>Assets</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
USD	885	2,810	1,798	43
EUR	6,589	3,899	4,456	48

Foreign currency sensitivity analysis

The Group is mainly exposed to the currencies of the United States of America (USD) and the European zone (EUR).

The following table demonstrates the sensitivity to a reasonably possible changes in the US dollar and euro, with all other variables held constant, of the Group's profit before tax due to changes in the fair value of monetary assets and liabilities. Effect on profit includes the result of changes in the fair value of forward contracts. Although the derivatives have not been designated in a hedge relationship, they act as a commercial hedge for certain foreign currency borrowing transactions and will produce offsetting gains or losses on settlement.

	<i>USD</i>		<i>EUR</i>	
	<i>Changes in exchange rate, %</i>	<i>Effect on income before income tax</i>	<i>Changes in exchange rate, %</i>	<i>Effect on income before income tax</i>
2008	+20%	127	+20%	151
	-20%	(127)	-20%	(151)
2007	+10%	(274)	+5%	(195)
	-10%	274	-5%	195

Forward foreign exchange contracts

The following table details the forward foreign currency contracts outstanding at the reporting date:

	Foreign currency		Contract value		Fair value	
	2008	2007	2008	2007	2008	2007
Buy EUR	218	74	8,103	2,643	1,425	48
Sell EUR	140	-	5,216	-	(698)	-
Buy USD	15	80	364	2,015	94	(32)
Sell USD	22	-	643	-	-	-

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. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term obligations with floating interest rates. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable interest rate loans and borrowings.

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

31 DECEMBER 2008

	Within 1 year	1 – 2 years	More than 2 years	Total
FLOATING RATE				
2.74% + EuroLIBOR (3m)	1,624	-	-	1,624
5% + USD LIBOR (3m)	441	-	-	441
EURIBOR (1m) + 3.1%	1,242	-	-	1,242
TOTAL	3,307	-	-	3,307

31 DECEMBER 2007

	Within 1 year	1–2 years	More than 2 years	Total
FLOATING RATE				
EURIBOR (1m), (3m)+ 2.74% to 4.5%, 7.39% to 9.5% Secured bank loans	2,683	2,127	-	4,810
TOTAL	2,683	2,127	-	4,810

The following table demonstrates the sensitivity to a reasonably possible change in interest rates of the Group's profit before tax. The analysis below has been determined based on the exposure to interest rates for the Group's financial instruments at the balance sheet date assuming that year end debt levels are constant over the year.

	Increase / decrease in basis points	Profit/loss before tax
2008 CHANGES IN THE FLOATING INTEREST RATES		
	25	8
	50	17
	100	33
2007 CHANGES IN THE FLOATING INTEREST RATES		
	25	5
	50	11
	100	21

Credit risk management

Credit risk refers to the risk that a 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 who are registered in the Russian Federation. The policy is that all customers who 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.

Trade accounts receivable consist of a large number of customers. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

As at 31 December 2008, the Group does not have significant credit risk exposure to any single counterparty in respect of trade accounts receivable. Concentration of credit risk in respect of trade accounts receivable did not exceed 5% of gross monetary assets at any time during the year.

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

The table below shows the balances of 6 major counterparties as at the balance sheet date:

Currency	Currency	Rating	Carrying amount	
			2008	2007
Gazprombank	EUR, USD, RUB	BBB-	3,994	201
Uralsib	EUR	BB-	1,300	1,290
Moscow Commercial Bank	USD	BBB-	441	-
Renaissance Capital	RUB	BB-	-	102
Russian Standard Bank	RUB	BB-	-	57
Alfa Bank	RUB	BB-	-	52

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 2008 and 31 December 2007 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 2008.

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. The Group uses long-term instruments (loans and borrowings) to cover a significant proportion of the 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 2008, the Group had available 9,833 million RUB (31 December 2007: 11,178 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. Approximately 56% of the Group's debt will mature in more than one year from 31 December 2008 (31 December 2007 – 47%).

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December 2008 and 2007 based on contractual undiscounted payments:

	<i>Less than 3 months</i>	<i>3–12 months</i>	<i>1–5 years</i>	<i>Total</i>
31 DECEMBER 2008				
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
Forward exchange contract	-	-	-	-
TOTAL	18,916	1,283	3,565	23,764
31 DECEMBER 2007				
Interest bearing loans and borrowings	-	2,829	2,311	5,140
Trade accounts payable	9,176	-	-	9,176
Other accounts payable and accrued expenses	599	1	-	600
Forward exchange contract	16	-	-	16
TOTAL	9,791	2,830	2,311	14,932

Fair value of financial instruments

Set out below is a comparison by class of the amounts and fair value of the Group's financial instruments that are carried in the consolidated financial statements:

	Carrying amount		Fair value	
	2008	2007	2008	2007
FINANCIAL ASSETS				
Cash and short-term deposits	7,072	3,685	7,072	3,685
Long-term loans and notes receivable	5	5	5	5
Forward contracts	821	32	821	32
Trade accounts receivable	138	76	138	76
Other accounts receivable	209	474	209	474
FINANCIAL LIABILITIES				
Interest-bearing loans and borrowings:				
Floating rate borrowings	(3,308)	(2,127)	(3,306)	(2,083)
Fixed rate borrowings	(3,749)	(2,683)	(3,749)	(2,683)
Forward contracts	-	(16)	-	(16)
Trade payables	(14,878)	(9,176)	(14,878)	(9,176)
OTHER PAYABLES	(1,309)	(600)	(1,309)	(600)

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than forced or liquidating sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade and other receivables, trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments;
- Long-term loans and notes receivable are evaluated by the Group based on parameters such as interest rate, specific risk factors and individual creditworthiness of the counteragent. Based on this evaluation allowances are taken into account for the expected losses of these receivables. As at 31 December 2008 and 2007, the carrying amounts of such receivables, net of allowances, approximate their fair values;
- The fair value of borrowings such as bank loans and other financial indebtedness are estimated by discounting future cash flows using rates currently available for debt of similar terms and remaining maturities;
- The fair value of forward foreign currency exchange contracts is based on forward exchange rates.

