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

Consolidated Financial Statements
For the Year Ended 31 December 2010

OJSC “COMPANY M.VIDEO” AND SUBSIDIARIES

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OJSC “COMPANY M.VIDEO” AND SUBSIDIARIES

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

The following statement, which should be read in conjunction with the independent auditors’ responsibilities stated in the independent auditors’ report set out on page 2 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 2010 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 of Russian Federation;
- 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 2010 were approved on 27 April 2011 on behalf of the Board of Directors by:

A. Tynkovan
President

C. Parks
Chief Financial Officer

Deloitte.

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INDEPENDENT AUDITOR'S 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 (collectively – the "Group"), which comprise the consolidated balance sheet as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 auditor considers internal control relevant to the entity's 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 2010, and its consolidated financial performance and consolidated results of its cash flows for the year then ended in accordance with International Financial Reporting Standards.

DELOITTE & TOUCHE

27 April 2011

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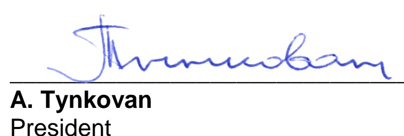
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2010
(in millions of Russian Rubles)

	Notes	31 December 2010	31 December 2009
NON-CURRENT ASSETS:			
Property, plant and equipment	6	7,417	6,074
Intangible assets	7	791	474
Advances paid for non-current assets		26	157
Deferred tax assets	15	1,501	1,160
Other non-current assets	2,8	503	256
Total non-current assets		**10,238**	**8,121**
CURRENT ASSETS:			
Inventories	9	20,751	15,474
Trade and other accounts receivable and prepaid expenses	2,10	1,048	1,092
Income tax receivable		-	34
Other taxes receivable	11	1,229	1,159
Cash and cash equivalents	12	7,183	6,447
Other current assets	2,13	246	226
Total current assets		**30,457**	**24,432**
TOTAL ASSETS		**40,695**	**32,553**
EQUITY:			
Share capital	14	1,798	1,798
Additional paid-in capital	14	4,576	4,576
Treasury shares	14	(588)	-
Retained earnings		4,279	2,385
Total equity		**10,065**	**8,759**
NON-CURRENT LIABILITIES:			
Deferred tax liabilities	15	327	288
Provisions	21	147	129
Total non-current liabilities		**474**	**417**
CURRENT LIABILITIES:			
Trade accounts payable	16	25,046	20,495
Other payables and accrued expenses	17	1,464	567
Advances received	18	893	506
Income tax payable		559	321
Other taxes payable	19	209	132
Deferred revenue	20	1,685	1,094
Provisions	2,21	300	262
Total current liabilities		**30,156**	**23,377**
Total liabilities		**30,630**	**23,794**
TOTAL EQUITY AND LIABILITIES		**40,695**	**32,553**

The Notes on pages 7 to 44 form an integral part of these consolidated financial statements. The independent auditors' report is presented on page 2.

Signed on behalf of the Board of Directors: 27 April 2011.



A. Tynkovan
President

C. Parks
Chief Financial Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

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

	Notes	2010	2009
REVENUE	22	86,565	72,507
COST OF SALES	23	(64,204)	(54,147)
GROSS PROFIT		22,361	18,360
Selling, general and administrative expenses	2,24	(19,960)	(16,597)
Other operating income	2,25	971	518
Other operating expenses	26	(138)	(164)
OPERATING PROFIT		3,234	2,117
Finance income/(cost), net	27	28	(794)
PROFIT BEFORE INCOME TAX EXPENSE		3,262	1,323
Income tax expense	15	(1,041)	(540)
NET PROFIT for the year, being **TOTAL COMPREHENSIVE INCOME for the year**		**2,221**	**783**
BASIC EARNINGS PER SHARE (in Russian Rubles)	28	12.41	4.35
DILUTED EARNINGS PER SHARE (in Russian Rubles)	28	12.35	4.35

The Notes on pages 7 to 44 form an integral part of these consolidated financial statements. The independent auditors' report is presented on page 2.

Signed on behalf of the Board of Directors: 27 April 2011.

A. Tynkovan
President

C. Parks
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010
(In millions of Russian Rubles)

	Notes	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Total
Balance as at 31 December 2008		**1,798**	**4,576**	**-**	**1,615**	**7,989**
Recognition of share-based payment for ordinary shares previously issued	29	-	-	-	28	**28**
Tax on dividends distributed by the Group's subsidiaries to the parent company	15	-	-	-	(41)	**(41)**
Total comprehensive income for the year		-	-	-	783	**783**
Balance as at 31 December 2009		**1,798**	**4,576**	**-**	**2,385**	**8,759**
Recognition of share-based payment for ordinary shares previously issued	29	-	-	-	86	**86**
Dividends declared	14	-	-	-	(413)	**(413)**
Shares buy back	14	-	-	(588)	-	**(588)**
Total comprehensive income for the year		-	-	-	2,221	**2,221**
Balance as at 31 December 2010		**1,798**	**4,576**	**(588)**	**4,279**	**10,065**

The Notes on pages 7 to 44 form an integral part of these consolidated financial statements. The independent auditors' report is presented on page 2.

Signed on behalf of the Board of Directors: 27 April 2011.

A. Tynkovan
President

C. Parks
Chief Financial Officer

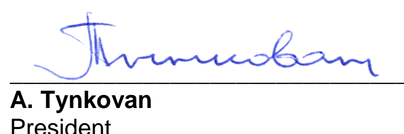
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010
(In millions of Russian Rubles)

	Note	2010	2009
OPERATING ACTIVITIES:			
Total comprehensive income for the year		2,221	783
Adjustments for:			
Income tax expense recognized in statement of comprehensive income	15	1,041	540
Depreciation and amortization	24	1,289	1,127
Change in allowance for doubtful trade and other accounts receivable and prepaid expenses	2,10	216	32
Share-based payment	29	86	28
Change in allowance for obsolete and slow-moving inventories and inventory losses, net of surpluses	23	125	440
Other non-cash reconciling items, net	2	450	761
Operating cash flows before movements in working capital		**5,428**	**3,711**
Increase in inventories		(5,395)	(1,806)
(Increase)/ decrease in trade and other accounts receivable and prepaid expenses	2	(144)	1,159
(Increase)/decrease in other taxes receivable		(70)	330
Increase in trade accounts payable		4,542	5,621
Increase/(decrease) in other payables and accrued expenses	2	472	(808)
Increase in deferred revenue		591	589
Increase in advances received		387	187
Other changes in working capital, net	2	(169)	(185)
Cash generated by operations		**5,642**	**8,798**
Income tax paid		(1,108)	(905)
Interest paid		(30)	(352)
Forward contracts settlement		-	542
Net cash generated by operating activities		**4,504**	**8,083**
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	2	(2,384)	(1,329)
Purchase of intangible assets		(429)	(232)
Interest received		46	49
Proceeds from settlement of short-term investments		-	1,772
Net cash (used in)/generated by investing activities		**(2,767)**	**260**
FINANCING ACTIVITIES:			
Dividends paid		(413)	-
Purchase of treasury shares		(588)	-
Proceeds from short-term borrowings		7,785	6,827
Repayment of borrowings		(7,785)	(15,621)
Proceeds from long-term borrowings		-	1,290
Net cash used in financing activities		**(1,001)**	**(7,504)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**736**	**839**
Net foreign exchange difference		-	160
CASH AND CASH EQUIVALENTS, at the beginning of the year		**6,447**	**5,448**
CASH AND CASH EQUIVALENTS, at the end of the year		**7,183**	**6,447**

Refer to Notes 6, 8, 10, 17 and 32 for details of non-cash transactions.

The Notes on pages 7 to 44 form an integral part of these consolidated financial statements. The independent auditors' report is presented on page 2.

Signed on behalf of the Board of Directors: 27 April 2011.



A. Tynkovan
President

C. Parks
Chief Financial Officer

1. GENERAL INFORMATION

The consolidated financial statements of OJSC “Company M.video” (the “Company”) and subsidiaries (the “Group”) for the year ended 31 December 2010 were authorized for issue in accordance with a resolution of the Board of Directors on 27 April 2011.

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.

LLC “Company M.video” was incorporated on 3 December 2003. On 25 September 2006 the Company was reorganized from a Limited Liability Company to an Open Joint Stock Company. Following the initial public offering in November 2007, the Company’s ordinary shares were admitted to trading on RTS and MICEX stock exchanges in the Russian Federation.

The Group is the operator of a chain of consumer electronic stores operating in the Russian Federation. The Group specializes in the sale of TV, audio, video, Hi-Fi, home appliances and digital equipment, as well as related services. The Group comprises a chain of owned and leased stores (219 stores as at 31 December 2010; 177 stores as at 31 December 2009) and two online internet stores. In 2010 the Group ceased the wholesale operations.

The accompanying consolidated financial statements include assets, liabilities and result of operations of the Company and its subsidiaries as at 31 December 2010 and 2009 (all of the below subsidiaries operate in the Russian Federation):

Name of subsidiary	Nature of business	Proportion of ownership interest and voting power held, % 2010	Proportion of ownership interest and voting power held, % 2009
LLC “M.video Management”	Trading	100	100
LLC “M.video Torg”	Equipment	-*	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

* On 21 December 2010 LLC “M.video Torg” was liquidated. All of LLC “M.video Torg” transactions and balances were intra-group; therefore its liquidation has not had and is not expected to have an impact on the consolidated financial statements of the Group.

Shareholders

As at 31 December 2010 and 2009 the registered shareholders of OJSC “Company M.video” and their respective ownership and voting interests were as follows:

	2010	2009
“Svece Limited”	68.3430%	69.9626%
“M.video Holding (Cyprus) Limited”	0.4123%	0.5884%
Various shareholders	31.2447%	29.4490%
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 International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") and valuation of items of property, plant and equipment measured at fair value which was used as deemed cost of the property, plant and equipment as at the date of transition to IFRS. The Group transitioned to IFRS on 1 January 2006.

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

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

Adoption of the new standards and interpretations

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

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

- IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Revision to the IFRS on First-time Adoption of IFRSs and Amendment on Additional Exemptions for First-time Adopters;
- Amendment to IFRS 2 "Share-Based Payment" – Group Cash-settled Share-based Payment Transactions;
- IFRS 3 "Business Combinations" (as revised in 2008), IAS 27 "Consolidated and Separate Financial Statements" (as revised in 2008) and IAS 28 "Investments in Associates" (as revised in 2008), IAS 31 "Interest in Joint ventures" (as revised in 2008);
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible Hedged Items;
- IFRIC 17 "Distribution of Non-Cash Assets to Owners";
- IFRIC 18 "Transfers of Assets from Customers";
- Improvements to IFRSs (May 2008 and April 2009).

Adoption of these standards and interpretations has not had and is not expected to have an impact on the consolidated financial statements of the Group.

2. BASIS OF PREPARATION (CONTINUED)

Reclassifications

In 2010 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:

	As previously reported	Reclas-sification	After reclas-sification	Comments
Consolidated Balance Sheet as at 31 December 2009				
Other non-current assets	127	129	256	Reclassification of the long-term advances paid for rent (162) net of respective allowance for non-recoverability (42) and long-term loans given to employees (10) from "Other accounts receivable and prepaid expenses" to "Other non-current assets" (129) and "Other current assets" (1)
Other accounts receivable and prepaid expenses	1,067	(130)	937	
Other current assets	225	1	226	
Trade accounts receivable	104	51	155	Reclassification of provision for goods return from "Trade accounts receivable" to "Provisions" (Current liabilities)
Provisions	(211)	(51)	(262)	
Trade accounts receivable	155	(155)	-	Change in presentation of "Trade accounts receivable" and "Other accounts receivable and prepaid expenses"
Other accounts receivable and prepaid expenses	937	(937)	-	
Trade and other accounts receivable and prepaid expenses	-	1,092	1,092	
Consolidated statement of comprehensive income for the year ended 31 December 2009				
Selling, General and Administrative expenses (Other expenses)	(16,615)	18	(16,597)	Reclassification of income from recovery in bad debt allowance from "Other operating income " to the "Bad debt expenses" in "Selling, General and Administrative expenses" within "Other expenses"
Other operating income	536	(18)	518	

	As previously reported	Reclas-sification	After reclas-sification	Comments
Consolidated Statement of Cash Flows as at 31 December 2009				
Change in allowance for doubtful trade accounts receivable	(2)	2	-	Change in presentation of "Change in allowance for doubtful trade accounts receivable" and "Change in allowance for doubtful advance paid"
Accrual of allowance for doubtful advances paid	34	(34)	0	
Change in allowance for doubtful trade and other accounts receivable and prepaid expenses	-	32	32	
Change in allowance for obsolete and slow-moving inventories	138	(138)	-	Change in presentation of "Change in allowance for obsolete and slow-moving inventories" and "Inventory losses"
Inventory losses	302	(302)	-	
Change in allowance for obsolete and slow-moving inventories and inventory losses, net of surpluses	-	440	440	
Interest expense on loans	368	(368)	-	Change in the presentation of various insignificant non-cash reconciling items as "Other non-cash reconciling items, net"
Change in fair value of forward contracts	279	(279)	-	
Net foreign exchange loss	188	(188)	-	
Loss on sale or disposal of property, plant and equipment	10	(10)	-	
Change in provision for goods returned	(5)	5	-	
Reversal of allowance for doubtful notes receivable	(14)	14	-	
Interest income	(65)	65	-	
Other non-cash reconciling items, net	-	761	761	
Decrease in trade accounts receivable	45	(45)	-	Change in presentation of "Decrease in trade accounts receivable" and "Decrease in other accounts receivable and prepaid expenses"
Decrease in other accounts receivable and prepaid expenses	942	(942)	-	
Decrease in trade and other accounts receivable and prepaid expenses	-	987	987	
Decrease in trade and other accounts receivable and prepaid expenses	987	172	1,159	Reclassification effect of long-term advances paid for rent and long-term loans given to employees from "Decrease in trade and other accounts receivable and prepaid expenses" to "(Increase) in other non-current assets" and "(Increase) in other current assets "
(Increase) in other non-current assets	-	(171)	(171)	
(Increase) in other current assets	(4)	(1)	(5)	
(Increase) in other current assets	(5)	5	-	Change in the presentation of various insignificant working capital changes as "Other changes in working capital, net"
(Increase) in other non-current assets	(171)	171	-	
(Decrease) in warranty provision	(3)	3	-	
(Decrease) in other taxes payable	(6)	6	-	
Other changes in working capital, net	-	(185)	(185)	
Decrease in other payables and accrued expenses	(779)	(29)	(808)	Reclassification of other payables for property, plant and equipment from "Decrease in other payables and accrued expenses" to "Purchases of property, plant and equipment"
Purchases of property, plant and equipment	(1,358)	29	(1,329)	

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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	3-5 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 the consolidated statement of comprehensive 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 and development	1-10 years
Trademarks	5-10 years

Internally-generated intangible assets - An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in the consolidated statement of comprehensive income in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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

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

Current tax

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred income tax for the period

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

Fair value – The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investment where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 the consolidated statement of comprehensive income. The net gain or loss recognized in the consolidated statement of comprehensive income incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 3 above.

<u>Held-to-Maturity investments</u>

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

<u>Loans and receivables</u>

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 losses 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.

<u>Available for sale financial assets</u>

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 consolidated statement of comprehensive income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the consolidated statement of comprehensive income as 'Dividends received' when the right or payment have been established.

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

<u>Impairment of financial assets</u>

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other accounts receivable where the carrying amount is reduced through the use of an allowance account. When trade and other 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 the consolidated statement of comprehensive income.

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 the consolidated statement of comprehensive income 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 the consolidated statement of comprehensive income 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 29.

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 the consolidated statement of comprehensive income over the remaining vesting period with a corresponding adjustment to retained earnings.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately in the consolidated statement of comprehensive income. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

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 cannot be broken down into stages, on receipt of VAT invoices upon completion of the contracted work.

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

At each balance sheet date the Group reviews outstanding balance of input VAT for recoverability and creates impairment provision for the amounts which recoverability is doubtful.

Inventories – Inventories are recorded at the lower of average cost or net realizable value. In-bound freight related costs from the 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 the retail stores are expensed as incurred and included as part of "Selling, general and administrative expenses".

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The Group defines qualifying assets as leasehold improvements and other assets acquired in connection with the new store openings which generally take three months or longer to become operational. Other borrowing costs are expensed as incurred.

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

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

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

Warranties

Warranties are generally covered by the brand owner of supplied goods directly or through their authorized agents in the Russian Federation.

When a supplier is unable to offer warranty services for their products in Russia, 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 VAT. 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 Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group has two categories of the revenue from the sale of goods: 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group;
- 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 ("ASA") 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 ASA, 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 ASA are recognized in the consolidated statement of comprehensive income on the same basis as related revenue.

Revenue from the sale of ASA 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 at the earlier date when: (i) the gift card is redeemed by the customer; or (ii) when the gift cards expire.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest income

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

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

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

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 is recognized in expenses in the period in which they are activated.

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

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

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

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

Treasury shares – If the Group reacquires its own equity instruments, those instruments ("treasury shares") are recognised as a deduction to equity at cost, being the consideration paid to reacquire the shares. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Such treasury shares may be acquired and held by the Company or by other subsidiaries of the Group.

4. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

The following new or revised standards and interpretations issued by IASB and IFRIC have been published at the date of authorization of the Group's consolidated financial statements for the year ended 31 December 2010, but are not yet effective:

- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters; Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters;
- Amendment to IFRS 7 "Financial Instruments: Disclosures" – Enhanced Derecognition Disclosure Requirements;
- IFRS 9 "Financial Instruments" – Classification and Measurement;
- Amendment to IAS 12 "Income Taxes'' – Deferred Tax: Recovery of Underlying Assets;
- IAS 24 "Related Party Disclosures" (as revised in 2009);
- Amendment to IAS 32 "Financial Instruments: Presentation" – Classification of Rights Issues;
- Amendment to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions" – Prepayment of a Minimum Funding Requirement;
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments";
- Improvements to IFRSs (May 2010).

Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters; Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The IASB amended IFRS 1 to exempt first-time adopters of IFRSs from providing the additional disclosures introduced by the March 2009 amendments to IFRS 7 "Improving Disclosures about Financial Instruments". The removal of fixed dates amendment replaces references to a fixed transition date of 1 January 2004 with 'the date of transition to IFRSs'. The amendment to severe hyperinflation provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The amendments are expected to have no impact on the Group's consolidated financial statements.

Amendment to IFRS 7 "Financial Instruments: Disclosures" – Enhanced Derecognition Disclosure Requirements

The IASB introduced enhanced disclosure requirements to IFRS 7 "Financial Instruments" as part of comprehensive review of off-balance sheet activities. The amendment is effective for annual periods beginning on or after 1 January 2011. The amendments are designed to ensure that users of financial statements are able to more reliably understand transactions involving the transfer of financial assets (for example, securitisations), including the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions is undertaken around the end of a reporting period. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 9 "Financial Instruments" – Classification and Measurement

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

Further in 2010 the standard was developed by revising the requirements for classification and measurement of financial liabilities. Guidance on derecognition of financial instruments and related implementation guidance from IAS 39 "Financial Instruments: Recognition and Measurement" has also been incorporated into IFRS 9. The key differences, relating to presentation and measurement of financial liabilities as compared to IAS 39 are the presentation of the effects of changes in the fair value attributable to a liability's credit risk; and the elimination of the cost for derivative liabilities to be settled by delivery of unquoted equity instruments. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

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

Amendment to IAS 12 "Income Taxes" –Deferred Tax: Recovery of Underlying Assets

In December 2010 the IASB issued the amendment to the IAS 12 "Income Taxes", which shall be applied for annual periods beginning on or after 1 January 2012, with earlier application permitted. The amendment provides an exception to the general principle in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. For investment property measured using the fair value model in IAS 40 "Investment Property", for the purpose of measuring deferred tax, the amendment introduces a rebuttable presumption that the carrying amount of such an asset will be recovered entirely through sale. Amendment to IAS 12 is not expected to have any impact on the Group's consolidated financial statements.

IAS 24 "Related Party Disclosures" (as revised in 2009)

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

Amendment to IAS 32 "Financial Instruments: Presentation" – Classification of Rights Issue

In October 2009 the IASB issued the amendment to IAS 32, it becomes effective for financial years beginning on or after 1 February 2010. The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. The amendment requires that provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendment is expected to have no impact on the Group's consolidated financial statements.

Amendment to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions" – Prepayment of a Minimum Funding Requirement

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the consolidated financial statements of the Group.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

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

Improvements to IFRSs (May 2010)

In May 2010 IASB issued further amendments to some of the standards and interpretations, primarily with a view to removing inconsistencies and clarifying wording. These amendments cover a number of standards and interpretations issued by IASB and IFRIC and become effective in future annual periods. The Group is currently assessing the impact of the improvements on the its consolidated financial statements.

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

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

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

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

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

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

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

Tax and customs provisions and contingencies

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

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

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

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 (under Long-term incentive plan hereinafter "LTIP") is based on the Group's estimate of the number of equity instruments that will eventually vest and other estimates outlined in Note 29.

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.

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.

Allowance for Doubtful Accounts

Provision for impairment is based on the historical data related to collectability of accounts receivable and solvency analysis of the most significant debtors. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. More details are provided in Notes 8 and 10.

Critical judgments in applying the Group's accounting policies

Recognition of revenue from sale of ASA and associated costs

Revenue earned from the sale of ASA 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 ASA the Group operates under agreement concluded with a related party services center which assumes substantially all of the Group's obligations under all of the existing and future ASA 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 ASA is recognized immediately as part of "Cost of sales". Other direct costs associated with the sale of ASA, such as sales bonuses paid to shop assistants are disclosed as part of "Selling, general and administrative expenses".

Supplier bonuses

The Group receives various types of bonuses from suppliers in the form of volume discounts and promotional, advertising 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 purchased from the suppliers, rather than a reimbursement of specific costs incurred by the Group.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at 31 December 2010 and 2009 consisted of the following:

	Buildings	Leasehold improvements	Construction in progress	Trade equipment	Security equipment	Other fixed assets	Total
Cost							
As at 31 December 2008	**2,982**	**2,152**	**58**	**1,169**	**448**	**693**	**7,502**
Additions	-	-	1,201	-	-	-	1,201
Transfers	273	397	(1,231)	270	120	171	-
Disposals	-	(15)	(2)	(93)	(20)	(32)	(162)
As at 31 December 2009	**3,255**	**2,534**	**26**	**1,346**	**548**	**832**	**8,541**
Additions	-	-	2,558	-	-	-	2,558
Transfers	982	716	(2,568)	354	157	359	-
Disposals	-	(16)	(1)	(90)	(8)	(26)	(141)
As at 31 December 2010	**4,237**	**3,234**	**15**	**1,610**	**697**	**1,165**	**10,958**
Accumulated depreciation and impairment loss							
As at 31 December 2008	**244**	**355**	**-**	**444**	**240**	**302**	**1,585**
Charge for the year	155	323	-	238	122	200	1,038
Disposals	-	(15)	-	(86)	(19)	(32)	(152)
(Reversal)/recognition of impairment loss, net	-	(8)	-	5	-	(1)	(4)
As at 31 December 2009	**399**	**655**	**-**	**601**	**343**	**469**	**2,467**
Charge for the year	189	372	-	269	125	222	1,177
Disposals	-	(2)	-	(74)	(5)	(22)	(103)
As at 31 December 2010	**588**	**1,025**	**-**	**796**	**463**	**669**	**3,541**
Net book value							
As at 31 December 2009	**2,856**	**1,879**	**26**	**745**	**205**	**363**	**6,074**
As at 31 December 2010	**3,649**	**2,209**	**15**	**814**	**234**	**496**	**7,417**

As at 31 December 2010 and 2009 there were no commitments for the acquisition of property, plant and equipment. During the year 2010 the borrowing costs of 6 (2009: 16) were capitalized as part of the cost of the Group's property, plant and equipment.

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

7. INTANGIBLE ASSETS

Intangible assets as at 31 December 2010 and 2009 consisted of the following:

	Software licenses and development	Trademarks	Total
Cost			
As at 31 December 2008	**388**	**12**	**400**
Additions	232	-	232
As at 31 December 2009	**620**	**12**	**632**
Additions	421	8	429
As at 31 December 2010	**1,041**	**20**	**1,061**
Accumulated amortization			
As at 31 December 2008	**64**	**1**	**65**
Charge for the year	92	1	93
As at 31 December 2009	**156**	**2**	**158**
Charge for the year	109	3	112
As at 31 December 2010	**265**	**5**	**270**
Net book value			
As at 31 December 2009	**464**	**10**	**474**
As at 31 December 2010	**776**	**15**	**791**

7. INTANGIBLE ASSETS (CONTINUED)

During 2010 the Group incurred expenditures in the total amount of 421 (2009: 232) which for the most part related to the implementation of additional functionality of the Group's ERP system SAP SCM.

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

As at 31 December 2010 and 2009 the Group had commitments for the acquisition of software licenses (Note 32).

8. OTHER NON-CURRENT ASSETS

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

	2010	2009
Long-term part of warranty asset – in respect of ASA (Note 21)	144	126
Long-term advances paid for rent	415	162
Long-term loans and notes receivable	13	10
Less: allowance for doubtful long-term advances paid for rent	(69)	(42)
Total	**503**	**256**

Movement in the allowance for doubtful long-term advances paid for rent is as follows:

	2010	2009
Balance at the beginning of the year	42	38
Impairment losses recognized on long-term advances paid for rent	34	4
Amounts recovered during the year	(7)	-
Balance at the end of the year	**69**	**42**

9. INVENTORIES

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

	2010	2009
Goods for resale	22,121	17,110
Other inventories	43	10
Less: allowance for obsolete and slow-moving inventories	(1,413)	(1,646)
Total	**20,751**	**15,474**

For information relating to the cost of inventory recognized as an expense during the year ended 31 December 2010 and 2009 refer to Note 23.

As at 31 December 2010 inventories with the carrying amount of 2,007 (2009: 3,886) were pledged as collateral under financial guarantee contracts entered into by the Group (Note 32).

10. TRADE AND OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

Trade and other accounts receivable and prepaid expenses as at 31 December 2010 and 2009 consisted of the following:

	2010	2009
Advances paid to suppliers and prepaid expenses	685	792
Other accounts receivable	613	187
Trade accounts receivable	28	176
Advances paid to related parties (Note 30)	9	36
Less: allowance for doubtful receivable	(287)	(99)
Total	**1,048**	**1,092**

For details relating to advances paid to related parties refer to Note 30.

As at 31 December 2010 the age of all trade and other accounts receivable past due but not impaired did not exceed 30 days (31 December 2009: 30 days).

Movement in the allowance for doubtful trade and other accounts receivable and prepaid expenses is as follows:

	2010	2009
Balance at the beginning of the year	99	75
Impairment losses recognized on trade and other accounts receivables	262	46
Amounts written off as uncollectible	(28)	(4)
Amounts recovered during the year	(46)	(18)
Balance at the end of the year	**287**	**99**

The trade and other accounts receivable impaired as at 31 December 2010 were aged 120+ days (31 December 2009: 120+ days).

Carrying value of trade and other accounts receivable approximates their fair value.

11. OTHER TAXES RECEIVABLE

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

	2010	2009
VAT recoverable	1,199	1,159
Other taxes receivable	30	-
Total	**1,229**	**1,159**

12. CASH AND CASH EQUIVALENTS

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

	2010	2009
Short-term bank deposits	4,900	4,848
Cash at banks	1,257	786
Cash in transit	818	644
Petty cash and cash in stores	208	169
Total	**7,183**	**6,447**

12. CASH AND CASH EQUIVALENTS (CONTINUED)

As at 31 December 2010 and 2009 the fair value of cash and cash equivalents equals to their carrying value.

Cash in transit represents acquiring and cash collected from the Group's stores and not yet deposited into the bank accounts at the year end.

Short-term deposits earn interest ranging from 2.5% to 4.5% per annum (2009: from 4.5% to 11.5% per annum).

13. OTHER CURRENT ASSETS

Other current assets as at 31 December 2010 and 2009 consisted of the following:

	2010	2009
Short-term part of warranty asset – in respect of ASA (Note 21)	234	202
Short-term loans	7	1
Other current assets	5	23
Total	**246**	**226**

14. EQUITY

Share capital

At 31 December 2010 and 2009 the Company had the following number of authorized, issued and outstanding ordinary shares:

	Outstanding ordinary shares	Issued ordinary shares	Authorised ordinary shares
Balance as at 31 December 2008	**179,768,227**	**179,768,227**	**209,768,227**
Change in the year	-	-	-
Balance as at 31 December 2009	**179,768,227**	**179,768,227**	**209,768,227**
Shares buy back	(2,700,000)	-	-
Balance as at 31 December 2010	**177,068,227**	**179,768,227**	**209,768,227**

Each share has par value of 10 RUB per share. During 2010 and 2009 there were no changes in the number of authorized and issued ordinary shares of the Company. All issued ordinary shares were fully paid. Number of outstanding ordinary shares reduced in 2010 as a result of shares buy-back.

Treasury shares

In September 2010 following the approval by the Board of Directors, the Group purchased 2,700,000 issued ordinary shares of the Company to be subsequently offered to the members of the LTIP Series 3 program in order to service the resulting subscription rights, for total cash consideration of 588. All 2,700,000 shares were held as treasury shares at cost as at 31 December 2010.

Additional paid-in capital

Additional paid-in capital consists of share premium which is the excess between proceeds from issuance of 30,000,000 additional ordinary shares issued at 1 November 2007 and their par value, less share issuance costs and related current and deferred income tax amounts.

Dividends declared

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

15. INCOME TAX

The Group's income tax expense for the years ended 31 December 2010 and 2009 was as follows:

	2010	2009
Current tax expense	(1,343)	(943)
Deferred tax benefit	302	403
Total income tax expense	**(1,041)**	**(540)**
Current income tax recognized in equity	-	(41)

The tax effect on the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2010 and 2009 is presented below:

	2010	2009
Deferred tax assets		
Supplier bonuses allocated to inventory	437	333
Deferred revenue	337	219
Allowance for obsolete and slow-moving inventory	265	329
Difference in depreciable value of property, plant and equipment	196	126
Accrued expenses	94	27
Allowance for doubtful debts	71	27
Salary-related accruals	55	47
Other items	46	52
Total	**1,501**	**1,160**
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	269	276
Other items	58	12
Total	**327**	**288**

At 31 December 2010 and 2009 the Group measured deferred tax assets and deferred tax liabilities using tax rate of 20%, which is the rate expected to be applied in the period in which the asset is realized or the liability is settled.

The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the profit before income tax expense. Below is a reconciliation of theoretical income tax expense at the statutory rate of 20% effective for 2010 and 2009 to the actual expense recorded in the Group's consolidated statement of comprehensive income:

	2010	2009
Profit before income tax expense	3,262	1,323
Theoretical income tax expense at the statutory rate of 20%	(652)	(265)
Adjustments due to:		
Losses due to inventory shortages	(36)	(26)
Other non-deductible expenses, net	(349)	(215)
Income tax provisions (Note 32)	(4)	(34)
Income tax expense	**(1,041)**	**(540)**

Taxable temporary differences in relation to investments in subsidiaries for which deferred tax liabilities have not been recognized as at 31 December 2010 amounted to 118 (31 December 2009: 98).
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. TRADE ACCOUNTS PAYABLE

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

	2010	2009
Trade accounts payable to third parties	25,046	20,436
Trade accounts payable to related parties	-	59
Total	**25,046**	**20,495**

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 30.

17. OTHER PAYABLES AND ACCRUED EXPENSES

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

	2010	2009
Accounts payable and accruals for rent and utilities	593	43
Accounts payable and accruals for salaries and bonuses	407	294
Accrued unused vacation	111	94
Accounts payable for property, plant and equipment	72	29
Other current liabilities to related parties (Note 30)	56	10
Accounts payable and accruals for consulting fees	55	-
Other payables and accrued expenses	170	97
Total	**1,464**	**567**

18. ADVANCES RECEIVED

Advances received as at 31 December 2010 and 2009 consisted of the following:

	2010	2009
Advances received for gift cards	539	409
Other advances received	354	97
Total	**893**	**506**

19. OTHER TAXES PAYABLE

Other taxes payable as at 31 December 2010 and 2009 consisted of the following:

	2010	2009
Payroll taxes	128	84
VAT payable	2	-
Other taxes payable	79	48
Total	**209**	**132**

20. DEFERRED REVENUE

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

	2010		2009	
	Customer loyalty programs	Other programs	Customer loyalty programs	Other programs
As at 1 January	522	572	113	392
Revenue deferred during the year	1,989	611	1,232	572
Revenue released to the consolidated statement of comprehensive income	(1,437)	(572)	(823)	(392)
As at 31 December	**1,074**	**611**	**522**	**572**

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

21. PROVISIONS

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

	Non-current		Current	
	2010	2009	2010	2009
Warranty provision – in respect of ASA (i)	144	126	234	202
Provision for goods return	-	-	59	51
Warranty provision – repair of goods (ii)	3	3	7	9
Total	**147**	**129**	**300**	**262**

(i) The warranty provision in respect of ASA 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 ASA. A Group entity sells the ASA directly to customers; however, a back-to-back agreement entered into between the Group entity and a related party transfers the obligations under the ASA from the Group to the related party. For this reason an equal corresponding non-current (Note 8) and current (Note 13) 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 and expected cost of services.

(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 movement in provisions during the years ended 31 December 2010 and 2009 is as follows:

	Warranty – ASA	Warranty – Repair of goods	Provision for goods return
Balance as at 1 January 2009	264	15	62
Change in provision	64	(3)	(11)
Balance as at 1 January 2010	328	12	51
Change in provision	50	(2)	8
Balance as at 31 December 2010	**378**	**10**	**59**

22. REVENUE

Revenue for the years ended 31 December 2010 and 2009 consisted of the following:

	2010	2009
Retail revenue (including internet)	86,386	70,324
Wholesale revenue	124	2,173
Other	55	10
Total	**86,565**	**72,507**

Retail revenue for 2010 includes sales of ASA in the amount of 2,228 (2009: 1,914). In 2010 the Group ceased the wholesale operations.

23. COST OF SALES

Cost of sales for the years ended 31 December 2010 and 2009 consisted of the following:

	2010	2009
Cost of goods and services	64,079	53,707
Inventory losses, net of surpluses	358	302
Change in allowance for obsolete and slow-moving inventories	(233)	138
Total	**64,204**	**54,147**

24. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2010 and 2009 consisted of the following:

	2010	2009
Payroll and related taxes	5,356	4,292
Lease expenses, net of income from sublease (2010: 45; 2009: 67)	4,139	3,310
Advertising and promotional expenses, net	2,729	2,493
Transportation	1,371	933
Depreciation and amortization	1,289	1,127
Warehouse services	1,158	860
Utilities expense	832	617
Security	545	454
Repairs and maintenance	537	386
Bank charges	352	347
Taxes other than income tax	267	319
Legal, audit and consulting expenses	249	221
Communication	195	201
Packaging and raw materials	181	176
Service centre	123	427
Office expenses	72	106
Other expenses	565	328
Total	**19,960**	**16,597**

Payroll and related taxes include 651 contribution to the state pension fund (2009: 540) and social and medical insurance in the amount of 204 (2009: 166). During 2010 the Group received 178 from its suppliers as a compensation of advertising and promotional expenses (2009: 130).

25. OTHER OPERATING INCOME

Other operating income for the years ended 31 December 2010 and 2009 includes commissions received from banks on loans provided to customers, income earned from suppliers for advertising materials placed in the Group's stores, goods delivery, income from leases and other items. Other operating income for the year ended 31 December 2010 does not include any foreign currency income (31 December 2009: 102).

26. OTHER OPERATING EXPENSES

Other operating expenses for the year ended 31 December 2010 and 2009 consisted of individually insignificant items.

27. FINANCE INCOME/(COSTS), NET

Finance income/(costs), net for the years ended 31 December 2010 and 2009 consisted of the following:

	2010	2009
Interest expense on bank loans	(25)	(368)
Interest income	53	65
Exchange difference from foreign currency borrowings, net	-	(290)
Loss on realized forward contracts	-	(263)
Change in fair value of forward contracts	-	62
Total	**28**	**(794)**

28. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus weighted average number of ordinary shares that would have been outstanding assuming the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2010	2009
Net profit attributable to equity holders of the Company	2,221	783
Weighted average number of ordinary share in issue (millions of shares)	178.93	179.77
Effect of share options granted to employees (millions of shares)	0.84	-
Basic earnings per share (in Russian rubles)	**12.41**	**4.35**
Weighted average number of ordinary shares for the purpose of diluted earnings per share (millions of shares)	179.77	179.77
Diluted earnings per share (in Russian rubles)	**12.35**	**4.35**

29. SHARE-BASED PAYMENTS

Employee share option plan

The Group had three share option schemes in operation during the year ended 31 December 2010, all of which are equity-settled schemes.

Long-term incentive plan Series 1 ("LTIP 1") and long-term incentive plan Series 2 ("LTIP 2")

On 28 June 2007, as approved by the Board of Directors, 1,498,682 of the Company's existing ordinary shares were set aside by the controlling shareholder for the purpose of the Group's share option plan. In accordance with the provisions of the plan each employee share option allows the recipient to purchase one ordinary share of OJSC "Company M.video" from M.video Investment Ltd. (BVI). The proceeds from the purchase is payable to the existing shareholder. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Employees must be employed at the vesting date to exercise his or her right unless the Board of Directors waives this condition. The number of options granted per employee is determined by the President and approved by the Board of Directors. Participants are able to exercise their options within 30 days since the vesting date by paying 10 RUB per share to the operator of the program.

Under LTIP 1, which was launched on 1 October 2007, 35 persons became members of the plan and 622,500 shares were committed. All share options awarded under LTIP 1 vested on 1 April 2010.

As at 31 March 2008 the Board of Directors approved the adoption of LTIP Series 2, As at 1 April 2008 46 members of the management team became members of the plan and 756,000 of the shares designated for the LTIP were committed. Under the terms of LTIP 2, the vesting period is three years with 33.33% of the shares to vest each April following the grant date.

Long-term incentive plan Series 3 ("LTIP 3")

On 9 December 2009 the Board of Directors approved the adoption of Series 3 of the LTIP for selected members of the Group's management team. 56 positions were enrolled in the plan and 3,170,000 of the shares were designated for LTIP 3. The shares will be granted by the Group to the participants of the plan at the appropriate vesting dates provided that the participants are employed to exercise his or her right unless the Board of Directors waives this condition. Consideration given to this non-market vesting condition requires the management to estimate the number of shares that will eventually vest and to adjust accordingly the number of shares included in the measurement of the transaction amount. Based on existed accumulated data on staff turnover the management best estimate of the number of shares eventually expected to vest is 2,670,000 (2009: 2,670,000).

Summary of the arrangements in existence as at 31 December 2010 and 2009

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

Option series	Number of options as at 31 December 2010	Number of options as at 31 December 2009	Grant date	Vesting date	Expiry date	Exercise price (RUB)	Fair value at grant date (RUB)
LTIP 1							
Issued 1 October 2007	-	93,500	1 October 2007	1 April 2010	30 April 2010	10	165.66
LTIP 2							
Issued 1 April 2008	-	142,000	1 April 2008	1 April 2010	30 April 2010	10	169.69
Issued 1 April 2008	134,000	142,000	1 April 2008	1 April 2011	30 April 2011	10	170.39
LTIP 3							
Issued 9 December 2009	1,275,000	1,275,000	9 December 2009	1 April 2013	30 April 2013	-	118.47
Issued 9 December 2009	1,395,000	1,395,000	9 December 2009	1 April 2015	30 April 2015	-	118.49

29. SHARE-BASED PAYMENTS (CONTINUED)

Fair value of share options

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

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

Options were priced using the Black-Scholes pricing model. Where relevant, the model has reflected management's best estimate of the future volatility of the Company's share price, expected dividend yield, risk-free interest rates and expected staff turnover. Management draws upon a variety of external sources to aid in the determination of the appropriate data to use in such situations.

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

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

Movements in share options during the period

The following reconciles the outstanding share options granted under the employee share plan at the beginning and end of the year period ended 31 December 2010:

	LTIP 1		LTIP 2		LTIP 3	
	Number of options expected to vest	Weighted average exercise price (RUB)	Number of options expected to vest	Weighted average exercise price (RUB)	Number of options expected to vest	Weighted average exercise price (RUB)
Balance as at 1 January 2009	**323,000**	**10**	**657,000**	**10**	**-**	**-**
Forfeited during the period	(79,000)	10	(163,000)	10	-	-
Granted during the period	-	-	-		2,670,000	-
Exercised during the period	(150,500)	10	(210,000)	10	-	-
Balance as at 31 December 2009	**93,500**	**10**	**284,000**	**10**	**2,670,000**	**-**
Exercisable at the end of the period	-	-	-	-	-	-
Balance as at 1 January 2010	**93,500**	**10**	**284,000**	**10**	**2,670,000**	**-**
Forfeited during the period	(2,000)	10	(14,000)	10	-	-
Exercised during the period	(91,500)	10	(136,000)	10	-	-
Balance as at 31 December 2010	**-**	**-**	**134,000**	**10**	**2,670,000**	**-**
Exercisable at the end of the period	-	-	-	-	-	-

The weighted average remaining contractual life of the share options granted under LTIP of all three Series outstanding as at 31 December 2010 is 1,150 days (31 December 2009: 1,400 days).

29. SHARE-BASED PAYMENTS (CONTINUED)

Share-based payments expense

The summary of expenses recognized by the Group in respect of share-based payments in the years ended 31 December 2010 and 2009 is as follows:

	For the year ended	
Option series	**31 December 2010**	**31 December 2009**
LTIP 1	1	3
LTIP 2	8	20
LTIP 3	77	5
	86	**28**

The above expense has been included into "Selling, general and administrative expenses" in the line item "Payroll and related taxes" (Note 24).

30. RELATED PARTIES

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

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year (for information regarding outstanding balances as at 31 December 2010 and 2009, also refer to Notes 10, 16 and 17):

	2010		31 December 2010		2009		31 December 2009	
	Sales to related parties	**Purchases from related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**	**Sales to related parties**	**Purchases from related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**
Entities under common control								
LLC "Universal service"	14	335	1	38	-	330	-	36
Transservice Group of Companies	4	114	4	6	21	261	32	12
LLC "Avto-Express"	-	82	-	5	-	142	-	13
Avtoritet Group of Companies	1	73	3	7	15	192	3	8
LLC "Noviy Format"	-	52	-	-	-	325	-	-
LLC "Company ProfService"	-	-	-	-	-	6	-	-
LLC "MV. Stil"	1	-	-	-	1	-	-	-
LLC "Private Security Agency Bars-SB"	2	183	1	-	2	147	1	-
Total	**22**	**839**	**9**	**56**	**39**	**1,403**	**36**	**69**

The nature of transactions with related parties is as follows:

- LLC "Universal Service" – provides after sale servicing and other related servicing of merchandize sold in connection with additional service agreements;
- Transservice Group of Companies – provides after sale and other servicing of the Group's merchandise;
- LLC "Avto-Express" – provides a car leasing service to the Group and logistic services;
- Avtoritet Group of Companies – provides the brand name "Smart-on" to the Group under a license agreement and two trading premises in Moscow under a lease agreement. In 2009 the Group also acquired a building from LLC "Avtoritet" with the intention of using this building in its retail operations;

30. RELATED PARTIES (CONTINUED)

- LLC "Noviy Format" – for the periods ended 31 December 2010 and 2009 the transaction related to purchase of the buildings;
- LLC "Company ProfService" – provides servicing of inventories;
- LLC "MV. Stil" – provides rent services;
- LLC "Private Security Agency Bars-SB" – provides store and head office security services.

The ultimate parent entity

"M.video Investment Ltd. (BVI)" is the ultimate parent company of the Group.

There were no transactions between the Group and the ultimate parent during the year ended 31 December 2010 and 2009.

Immediate parent entity

"Svece Ltd" owns 68.3433% of the ordinary shares of OJSC "Company M.video" as at 31 December 2010 (69.9626% as at 31 December 2009).

Refer to Note 1 for additional information on the ultimate controlling party of the Group and Note 29 for details for 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 payable. For the year ended 31 December 2010, the Group has not recorded any impairment of accounts receivable relating to amounts owed by related parties (2009: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group

The remuneration of directors and other members of key management during the year ended 31 December 2010 and 2009 was as follows:

	2010	2009
Short-term benefits*	189	173
Share-based payments	21	1
Total	**210**	**174**

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

As at 31 December 2010 there is 48 outstanding payable to key management personnel (2009: 35).

The number of key management positions was 17 in 2010 (2009: 15).

The Group did not provide any material post employment, termination, or other long-term benefits to key management personnel during the period other than contributions to state pension fund and the social funds as a part of payments of social security contributions on salaries and bonuses. SSC paid relating to compensation of key management personnel amounted to 1 for the year ended 31 December 2010 (SSC paid in 2009 was 3) and is included in the amounts stated above.

31. 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 15 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

	2010	2009
Minimum lease payments	3,993	3,355
Contingent rentals	191	22
	4,184	**3,377**

Non-cancellable operating lease commitments

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

	2010	2009
Within one year	4,416	3,707
After one year but not more than five years	19,276	15,923
More than five years	7,881	6,127
	31,573	**25,757**

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

	2010	2009
Within one year	201	210
After one year but not more than five years	2,033	2,441
More than five years	1,993	2,577
	4,227	**5,228**

Future minimum rental payments will be subject to VAT.

32. COMMITMENTS AND CONTINGENCIES

Operating environment

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2010 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery, there continues to be uncertainty regarding further economic growth, 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.

32. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Russian Federation tax and regulatory environment

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

As at 31 December 2009 the Group recorded a tax provision of 129. During 2010 the Group recognized additional tax provision for income and other taxes of 67 (2009: 66) and reversed tax provision for income and other taxes of 63 (2009: 32) that was previously recognized with regards to income tax and other tax contingencies due to expiration of the statutory limitation period. This resulted in the 133 recognized as tax provision as at 31 December 2010.

The Group has identified other possible tax contingencies in respect of issues unrelated to customs (as discussed below) for the three-year period ended 31 December 2010. Management has estimated that possible exposure in relation to such tax risks, if they were to materialize, would not exceed twice the amount of the Group’s profit before income tax expense.

Customs

During year ended 31 December 2009, as is common in the business, the Group negotiated and confirmed with overseas representatives of foreign manufacturers, the quantity, price and attributes of the foreign manufactured goods, but the goods may have been be procured through the Group or third parties.

In addition to the above, during the years ended 31 December 2009 and 31 December 2010, 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 cannot be certain that the entities which imported the goods into Russia were in full compliance with the applicable regulations of the Russian customs code.

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

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

32. COMMITMENTS AND CONTINGENCIES (CONTINUED)

License Agreements

As at 31 December 2010, the Group had a total commitment of approximately 1.2-1.4 million EUR per annum (or 48.4 – 56.5 mln RUB per annum using exchange rate published on the Central Bank website was 40.3331 RUB/ EUR as at 31 December 2010), for technical support services with respect to existing SAP licenses and software during the period from 2011 to 2016 (31 December 2010: 17.5). The Group uses SAP software for finance and human resources functions.

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 environmental obligations. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental matters.

Financial guarantees

In the normal course of its operating activity the Group from time-to-time enters into financial guarantee contracts with banks. Under these contracts the banks provide guarantees in favour of the Group's suppliers and the Group may be required to pay under those contracts only if it fails to make timely payments to its suppliers. At 31 December 2010 the Group entered into such guarantee contracts for the total amount of 3,078 (2009: 3,735). The Group has pledged its inventories with the carrying amount of 2,007 (2009: 3,886) as collateral under these guarantee contracts.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Generally the Group's principal financial liabilities 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 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. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 shareholders through the optimization of the debt and equity balance. No changes were made in objectives, policies or processes during the years ended 31 December 2010 and 2009.

The capital structure of the Group consists of cash and cash equivalents (Note 12) and equity attributable to equity holders of the parent, comprising issued capital (less treasury shares), 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 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 it's capital needs 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:

	2010	2009
Financial assets		
Loans and receivables (including cash and cash equivalents)	8,301	6,628
Financial liabilities		
Liabilities carried at amortized cost	26,510	21,062

Foreign currency risk management

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Management believes that this risk is not significant because as at 31 December 2010 the Group has neither material assets nor liabilities denominated in foreign currencies on its consolidated balance sheet nor any transactional currency exposure relating to revenue as sales occur on the territory of the Russian Federation and are denominated in RUB (31 December 2009: nil).

Interest rate risk management

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Management believes that this risk is not significant because as at 31 December 2010 the Group does not have any borrowings or other financial liabilities bearing floating interest rates (31 December 2009: nil).

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk management

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

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

The Group's sales and credit concentration is not significant since neither revenue nor trade accounts receivable from any individual customer exceeds 1% of the Group's consolidated revenues and trade accounts receivable, respectively. Any defaults in payments or a material reduction in purchases made by any individual customer will not have significant negative impact on the Group's financial condition, results of its operations and liquidity.

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

The table below shows the balances that the Group has with 5 of its major counterparties as at the balance sheet date:

			Carrying amount	
Counterparty	**Currency**	**Rating**	**2010**	**2009**
Credit Bank of Moscow	RUB	B1	1,800	1,200
Sberbank	RUB	Baa1	1,700	-
Metallinvestbank	RUB	B2	700	-
Credit Europe Bank	RUB	Ba3	700	-
Gazprombank	RUB	Baa3	-	3,648
Total			**4,900**	**4,848**

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. There were no other concentrations of credit risk as at 31 December 2010 (31 December 2009: nil).

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 analyses its funding needs and anticipated cash flows, so that it can determine its funding obligations. The seasonality of the business, the store expansion plan and the anticipated working capital requirements form the basis of the evaluation. When necessary the Group uses long-term instruments (loans and borrowings) to cover its base liquidity needs. The Group uses short-term loans and bank overdrafts to cover seasonality needs. Every quarter the Group updates its liquidity needs and secures facilities with several banks to ensure that the Group has a sufficient amount of approved undrawn borrowing facilities.

As at 31 December 2010 the Group had obtained uncommitted standby borrowing facilities in the total amount of 3,600 (31 December 2009: nil).

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December 2010 and 2009 based on contractual undiscounted payments:

31 December 2010	**Less than 3 months**	**Total**
Trade accounts payable	25,046	25,046
Other accounts payable and accrued expenses	1,464	1,464
Total	**26,510**	**26,510**

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

Fair value of financial instruments

Management consider that the carrying amounts of financial assets and financial liabilities reflected in the Group's consolidated balance sheet as at 31 December 2010 and 2009 approximate their fair values.

34. SUBSEQUENT EVENTS

On 5 April 2011 the Group obtained the first short-term tranche amounted to 600, matured at 30 September 2011, and on 19 April the Group obtained second short-term tranche in amount of 400, matured at 14 October 2011, under long-term credit facility agreement with Sberbank amounted to 2,100 matured at 15 August 2013. The tranches and credit line are denominated in RUB. Interest rate is ranged from 6.25% to 9.00% per annum depends on maturity period. Credit line is secured by the Group's inventory for the total carrying amount of 3,493.