М.видео
mvideo.ru

Switched-on!

Pleasure

Freedom

Dream

ANNUAL REPORT 2009

mvideo.ru

Switched-on!

ANNUAL
REPORT
2009

2009 Performance Highlights

Net retail revenue up 3.2% y-o-y to 70.3 billion rubles

Market share increase up to 13% in the CE market

Gross profit 25.3%

EBITDA margin 4.5%

177 stores in 72 cities with a total store area 467,000 sq m and total sales area 349,000 sq m as of 31.12.2009

22 new stores opened

ANNUAL REPORT 2009

Contents

Freedom

THE WIDEST SELECTION OF GOODS AT M.VIDEO GIVES YOU AN UNLIMITED FREEDOM OF CHOICE, IMPRESSIONS, NEW ASPIRATIONS AND WISHES

Portable GPS device
4.3'' touch-screen display

travel

communication

Pocket PC
CPU 624 MHz

music

Car Audio MP3 and Radio deck
Peak power 52 watts x 4 channels

No1 FOR YOU

Statement from Chairman and CEO

1

DEAR SHAREHOLDERS OF OJSC "COMPANY M.VIDEO", WE ARE VERY PROUD TO HIGHLIGHT OUR COMPANY'S ACCOMPLISHMENTS IN THE COMPETITIVE AND CHALLENGING YEAR IN THE RUSSIAN CONSUMER ELECTRONICS AND HOME APPLIANCES MARKET

In 2009 M.video was the only nationwide consumer electronics retailer, who achieved positive dynamics and sales growth. While the market lost more than 30% of its value as compared to the previous year, our top line growth was more than 3% for retail revenue.

We were strongly committed to our expansion in the Russian market in 2009. While many of the consumer electronics networks closed stores and experienced financing difficulties during the year, M.video opened 22 new stores and continued to roll out its successful store format to the regions of Russia, adding 7 new cities to geographical coverage.

The breakthrough performance in 2009 allowed us to double our market share in both, the national competition and in the specialized networks segment.

Our second major achievement was that we were able to increase our Gross Profit by 30 basis points, to 25.3% of sales.

Probably the most impressive highlight of our year was that due to our effective management of the Company's balance sheet and working capital M.Video achieved a net cash position of more than 6 billion Russian Rubles at the end of 2009 as compared to the net debt position the year before.

The economic circumstances in 2009 led to the reduction in traffic and number of purchases. Customers became more price-sensitive but their preferences remained with high quality, branded products. The Russian households consider consumer electronics and large home appliances as an investment and M.video stores have always been offering the widest selection of top branded products, which our target customers choose to buy. As the economy recovers we should be able to capitalize on this advantage and to increase our revenue.

To achieve that we will support our best in class management team and well-trained and motivated sales consultants in the stores. M.video always has high commitments to invest in people and provide new job opportunities in the cities and regions where we operate.

Even in challenging times we subscribe to the idea that a customer-centric approach brings more benefits to a retailer. We work closely with our suppliers to maintain availability of goods in shelves but by communicating with our customer we understand the demand that allows us to develop further our in-house selling technologies and service propositions.

In 2010 we will continue to provide innovative products and services to our customers in all our locations, open new stores and expand our retail network while putting special emphasis on the development in such pioneering areas as online sales to ensure that our internet business satisfies those customers who prefer to shop using this channel.

Peter Györffy Alexander Tynkovan

Finally, we would like to thank everyone for their support in 2009, and we look forward to continuing success in 2010.

Alexander Tynkovan
Chief Executive Officer

Peter Györffy,
Chairman of the Board
of Directors

Pleasure

TRENDY DESIGN, EASY TO USE, HIGH DURABILITY AND BEST VALUE FOR MONEY – THESE ARE THE FEATURES WHICH OUR CUSTOMERS APPRECIATE THE MOST AND WHICH BRING THEM A REAL PLEASURE OF ENJOYING THE CONSUMER ELECTRONICS THEY PURCHASE FROM US

music

Hi-Fi Audio system
Peak power 65 watts x 2 channels

knowledge

All-in-one desktop PC
CPU 3.06 GHz, RAM 4Gb

communications

Mobile phone
EGSM 900/1800/1900,
3.2 MP Camera

Company Philosophy

2

Vision

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

Mission

To build up an efficient consumer electronics business in Russia:

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

Strategy

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

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

Company Background

3

M.VIDEO IS A LEADING CONSUMER ELECTRONICS AND HOME APPLIANCE RETAILER IN THE RUSSIAN FEDERATION

We opened our first retail store in the centre of Moscow in 1993 and as of the end of 2009 we operated 177 stores in 72 cities in selected regions of Russia. We also operate two online internet stores. M.video offers its customers approximately 20,000 SKUs of audio/video, digital, small and large home appliances, media and entertainment products as well as accessories. We sell brand name products as well as some exclusive goods. M.video generally operates its stores under a uniform format and a specially designed store concept to provide customers with approximately 2,000 square meters of easy-to-navigate shopping space that also offers information about products and upcoming trends.

In addition to providing an efficient retail store format and customer-friendly store concept aligned with the brand perception, M.video believes that it has distinguished itself by offering its customers a wide assortment of quality and innovative products and outstanding customer service whether through the product knowledge of the sales people, additional service agreement or our 24-hour customer care centre.

In November 2007 M.video became the first publicly traded company in the domestic consumer electronic retail sector; its shares are traded on both Russian RTS and MICEX exchanges.

M.video locations

2009 number of stores	Location
41	Moscow (with Moscow area)
16	Saint-Petersburg
5	N.Novgorod, Rostov-on-Don, Yekaterinburg
4	Chelyabinsk, Kazan, Krasnodar
3	Kemerovo, Novosibirsk, Perm, Samara, Tyumen, Ufa, Voronezh, Volgograd
2	Barnaul, Lipetsk, Krasnoyarsk, Kursk, Nizhnevartovsk, Novorossiysk, Omsk, Orenburg, Ryazan, Surgut, Saratov, Stavropol, Vologda
1	Almetyevsk, Armavir, Arkhangelsk, Astrakhan, Bryansk, Cheboksary, Cherepovets, Gubkin, Ivanovo, Izhevsk, Khanty-Mansiysk, Kostroma, Kurgan, Makhachkala, Magnitogorsk, Naberezhnye Chelny, Nalchik, Nefteyugansk, Nizhnekamsk, Nizhny Tagil, Novokuznetsk, Novotroitsk, Nyagan, Orel, Penza, Pskov, Pyatigorsk, Salavat, Sochi, Stary Oskol, Sterlitamak, Tomsk, Tambov, Taganrog, Tolyatti, Ulyanovsk, Vladikavkaz, Vladimir, Volgodonsk, Volzhsky, Yaroslavl, Yoshkar-Ola, Zheleznogorsk
Total : 177	**Total cities: 72**

Dream

IT ALL STARTS WITH A DREAM. ALL HUMAN'S ACCOMPLISHMENTS, INVENTIONS AND DISCOVERIES BEGIN WITH A DREAM. A DREAM IS THE FIRST STEP WE MAKE. M.VIDEO HELPS TO MAKE THIS FIRST STEP AND BRING A DREAM CLOSER TO LIFE

travel

Portable GPS device
Bluetooth technology, microSD media card slot

impressions

Laptop PC
4GB DDR2 memory, built-in webcam

No1 FOR YOU

communication

Pocket PC
Windows Mobile v.6.1

Operational Performance Review

4

2009 WAS A TREMENDOUSLY CHALLENGING YEAR FOR THE MOST OF RUSSIAN RETAIL COMPANIES AS CUSTOMERS ' BEHAVIOR WAS HEAVILY INFLUENCED BY THE SEVERE ECONOMIC CIRCUMSTANCES.

Most national retail operators were forced to support sales volumes and spur traffic and attachment rates in their stores.

Trough an increase in promotions M.video continued to work wit h supp liers to highlight value dri ven off ers to its cust omers .

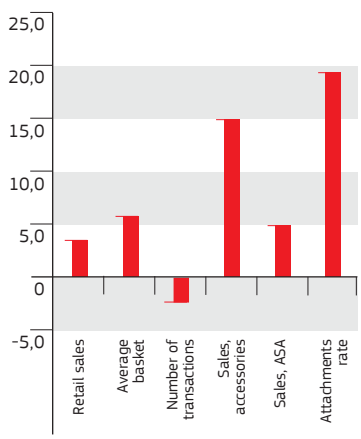
The Russian consumer electronics and home appliances market in 2009 dropped year-on-year more than 30% as estimated by the various research. M.video was the only nationwide consumer electronics retailer which was able to achieve positive sales dynamics and retail revenue growth in 2009. Our retail revenue growth of 3.2% was achieved through the opening of 22 new stores offsetting the negative 11.6% like-for-like and closing of 2 stores.

In troublesome market conditions we also managed to increase sales of accessories and Additional Services Agreements (ASA) which are wildly important for our business in terms of gross profit development.

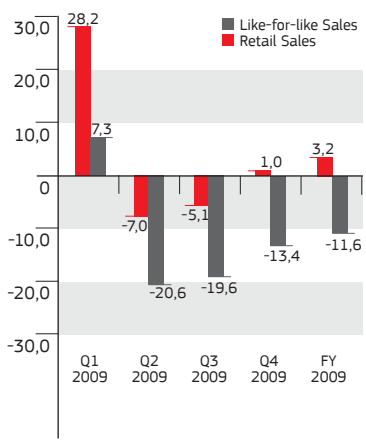
In 2009 more than 19 million transactions were made in the M.video network. We estimate that approximately 20% of store visitors made a purchase. The average transaction value in 2009 was around 4,300 Rubles, including VAT @18%.

The typical seasonality of our business was seriously distorted in 2009 due to the national cur-

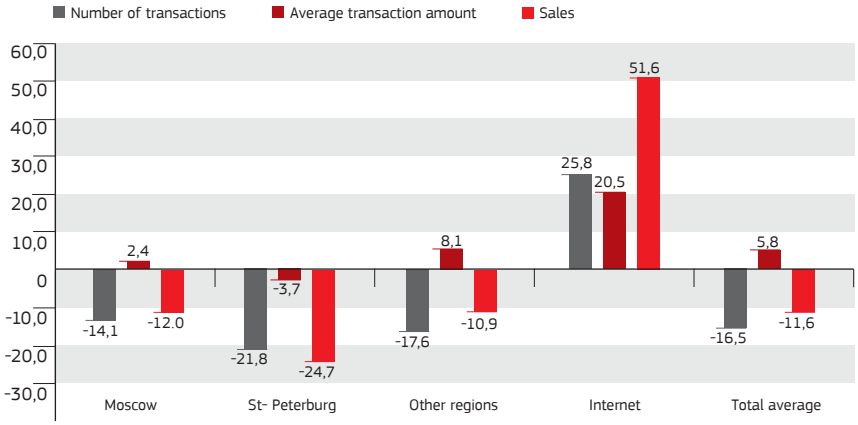
M.video retail indicators growth in 2009, %



Retail revenue and like-for-like dynamics in 1Q-4Q 2009, %



Transactions, average ticket and like-for-like* sales dynamics 2009, %



rency devaluation in the very beginning of the year. The first months of 2009 showed extreme sales growth when Russian customers were pushed to buy consumer goods worrying of the Russian rouble purchasing power. Thus the demand shifted from the 2nd quarter to the 1st quarter and the seasonal element was recaptured only when the currency exchange rate stabilized.

The Russian economy suffered from the global recession and as a result some aspects of the customers' behavior changed in 2009: people continued to shop for quality goods but became more price sensitive and patient in their purchases. At the same time we found that the consumers' preferences remained with high quality, added value products as they did not downgrade to private label brands. Traditionally Russian households consider consumer electronics and large home appliances as an investment and M.video stores have always been offering the widest selection of top branded products which our target customers choose to buy.

The like-for-like sales for the year were down due to a decrease in the traffic which led to a decline in number of transactions. This was offset slightly by an increase in the average check. The biggest like-for-like decrease happened in large industrial cities and one industry cities were the economy lacked diversification.

In such market circumstances a customer-centric approach brings more benefits to a retailer. Availability of goods in shelves, communication with every customer, offering various accessories allowed us to increase the average basket and UPT (units per ticket) in 2009. We also established a separate business unit responsible for end of life goods sales and introduced a new service offer via a brand-new in-store branch, Army of Botanics which we piloted in St.Petersburg stores and are planning to roll-out to Moscow in 2010.

Also by the year end 2009 M.video announced it would discontinue its wholesale channel as we did not require these sales to increase purchase volumes or to give us insight into the regional demand.

Expansion of the network

We opened a total of 22 new stores in 2009 with 3 in Moscow and 19 in the regions, adding 7 new cities to our geographical coverage. We also closed 2 stores in 2009 due to the low efficiency of those stores.

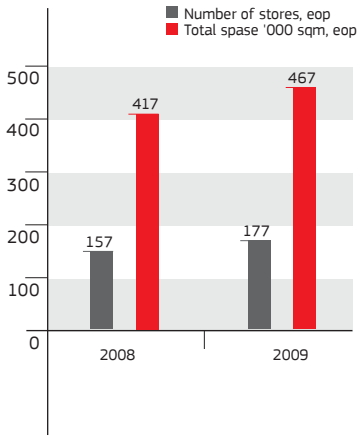
Our store profile includes 147 of our stores in shopping malls and 30 stand alone destinations. We lease 155 of our stores operated own 22 stores.

Our proven model for expansion is based on our uniform, easy to roll-out store concept with an average store size of 2,000+ sq m of selling space (2,500+ sq m of total space). Generally, we look for high average disposable income and high density of population and defined traffic zones. Another important factor is significant construction, either in new shopping malls or in residential developments.

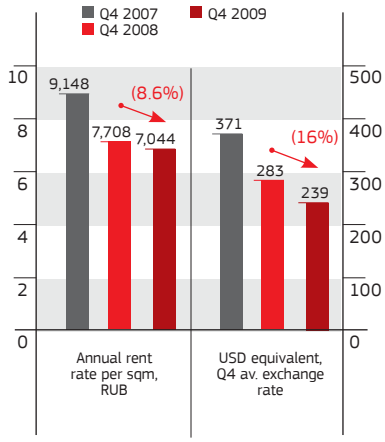
The average time it takes us to open a store is 3-5 months, and we invest 55 million rubles in each store on fixtures, lease agreements and other pre-opening costs.

* Like-for-like (LfL) data is based upon a comparison of stores open at January 1, 2009 and not closed for more than two weeks or permanently, or expanded or downsized by >20% of total space

Number of stores and growth in store area



Rent rates dynamics for the new stores opened in 2007-2009



In 2009 M.video continued to implement its strategy of increasing the density in the cities where it operates to get economies of scale on advertising and supply chain costs and to increase our market share in those cities. We add a new city when we were able to get a profitable store in a good city and/or to put pressure on our competition in a city where they have good sales because we are not present.

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

Due to the economic recession we enjoyed better rent rates for the new openings in 2009 as compared to the previous years. We were also able to use competitors' weaknesses and our increased negotiation power to talk to the landlords on the existing rent rates to obtain various exemptions, such as no escalation in rents or rent reductions for one or two years in those shopping centers where our like-for-like revenue per store decreased.

The recession seriously impacted our ability to fulfil our plan of opening 40 stores in the new shopping malls. The commercial real estate sector was among the most severely battered industries by the economic downfall and thus the pipeline of new construction projects reduced significantly. As a result the Company reduced its guidance and opened 22 stores in 2009.

Market share and competition

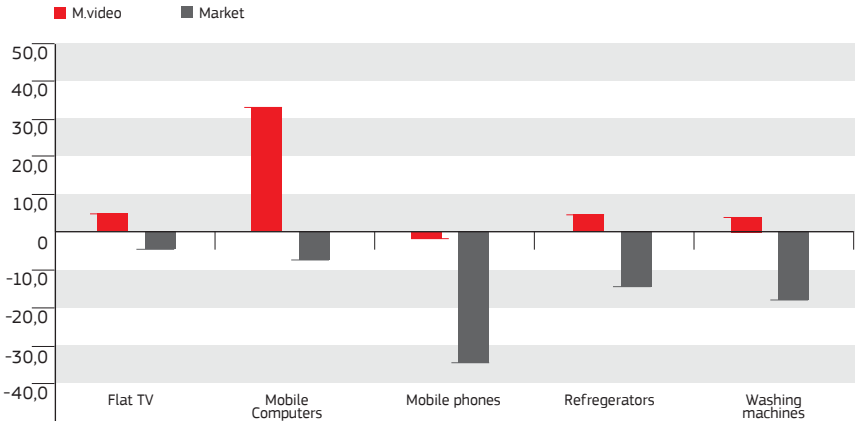
M.video competes with both national and regional consumer electronics retailers throughout Russia, as well as against niche specialist retailers such as computer, telecom and/or photography stores. We demonstrated high growth rates in sales due to our superior sales technologies and high standards of customer service.

The competitive landscape in the end of 2008 and through the whole 2009 opened up more opportunities for M.video. While the rest of the consumer electronics specialists (CES) suffered from both the recession and some specific internal problems and/or financing issues we were able to continue the development of our business and substantially increase our share in the market.

As we saw in 2009 the consumer electronics and home appliances consumption collapsed and the total market reportedly lost more than 30% year-on-year shrinking to a size even smaller than in 2007. Meanwhile our total market share grew to over 13% based on the several Russian analysts estimate of the market size exceeding 600 billion RUB. We have also noticed that the consumer electronics specialists (CES) share in the total market in 2009 increased to capture approximately 50% of the total market. M.video estimates its market share in the CES segment is about 26% as compared to 18% in mid 2008.

It is important to note that M.video gained market share in most of the product groups and categories it operates.

Top 5 product categories performance in 2009, %



Gross margin development

The management of M.video constantly focuses on ways to increase retail margins. We target consumers who are prepared to purchase based upon quality, design and service. This differentiation and focus on high-margin products and products with additional value added features brings us additional benefits with our vendors such as special delivery conditions and favourable purchasing prices.

IN 2009 M.VIDEO FOCUSED ON THE "A" AND "B" BRAND BUSINESS AND WORKED HARD TO REDUCE THE AMOUNT OF INVENTORY WHICH WAS APPROACHING THE END OF LIFE.

Due to the increased market volatility our retail margin was under strong downward pressure in 2009. M.video had to deal with larger than ever volumes of promotional sales versus the rest of the assortment: the promotion sales share grew 45% as compared to 2008 reaching 24.5% of the total business. We also faced a change in the product mix with increased share of low marginal products, e.g. strong development of digital appliances, specifically notebooks, or Flat TV category.

A positive element in the overall unfavorable market environment was the extraordinary performance shown by the Accessories product group, as already mentioned, with a strong 15% revenue development. Our strategy includes growth in this category as one of the key success factors to support gross margin.

In order to protect our gross margin from the retail margin erosion we focused on optimization of our purchasing conditions. As a result of that M.video was able to improve suppliers bonuses and allowances even though our purchases were not significantly higher than for 2008. We also stopped import activities in foreign currency and transferred 100% of procurement to Russian rubles.

We worked hard on improving stock rotation in our network while putting more emphasis on improving stock availability on the best contribution and promotional products. At the same time we worked closely with our vendors and introduced a new world class Sales Forecast System to support the improvement on our sales forecast accuracy and purchasing planning as well as starting our industry leading CPFR (Collaborative Planning Forecasting and Replenishment) model with our largest suppliers.

In 2009 M.video focused on the "A" and "B" brand business and worked hard to reduce the amount of inventory which was approaching the end of life.

Innovation

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

Our special attention was focused on the sales of the key innovative technology introduced

in the market in 2009 such as EDGE LED TVs. We have proven our leadership in bringing new technologies into the market through reaching our internal targets on selling 10,000 LED-TV units over the period and establishing a strong 5% share of LED flat TVs over the total LCD TV segment.

IN COOPERATION WITH MICROSOFT RUSSIA WE LAUNCHED A RETAIL PREMIÈRE OF THE NEW OS WINDOWS 7 IN MOSCOW IN ONE OF OUR DOWNTOWN STORES.

We were the first CE retailer in the market which started Micro 4/3 digital cameras sales with an exclusive brand new Panasonic DMC-GF1K camera. We also pioneered the offering of the revolutionary duo of the WiMAX 4G Internet access tools and the portable laptops.

In cooperation with Microsoft Russia we launched a retail première of the new OS Windows 7 in Moscow in one of our downtown stores.

Supply Chain development

In 2009 M.video approved a Distribution Strategy for 2009-2011 which accumulates and balances the 'interests' of Inventory, Transportation, and Location Strategies thus ensuring proper product distribution within the network.

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

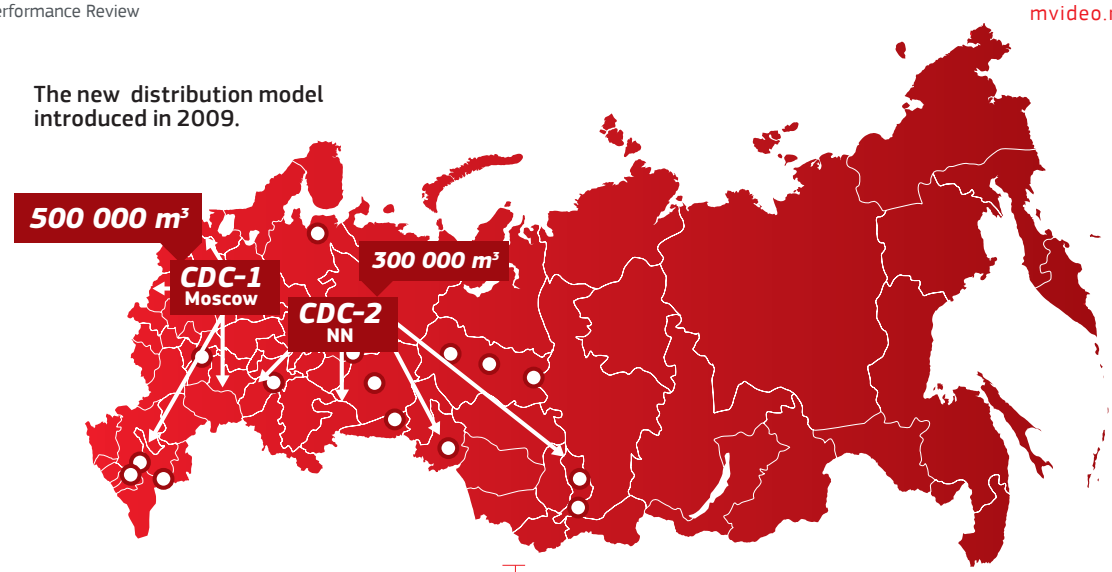
Our stores format and merchandising approach provides for allocation of most of goods on the shop floor, moving the stock's 'center of gravity' to the point of sales (POS). The best solution from the efficiency and cost point of view is to concentrate the stock in a Central Distribution Center (CDC), replenishing to the stores on demand, which stipulates for 'one level' distribution model, and helps to 'shorten the pipeline'.

At the same we recognized risks of holding all the stock in the one 'point' as well as anticipated efficiency losses due to the huge handling volumes and high prices for logistics operations in Moscow. Thus in 2009 we opened our second Central Distribution Center in Nizhny Novgorod which we chose for its geographical location and transportation and logistics providers availability.

In 2009 our management team put special emphasis on the efficiency of the stock management. We set up a target for the Procurement Group which provided for equalizing of our Inventories with our Payables to get positive impact on the working capital. We negotiated special agreements with strategic vendors to secure an efficient development of the ratio Stock vs. AP.

In 2008 we embarked on a multi-year Supply Chain Management (SCM) project. SCM is about more than just the technical aspects of storing and moving our products, it is about demand planning, forecasting & replenishment and about having the right goods at the right place at the right time, therefore reducing inventory levels

The new distribution model introduced in 2009.



and out-of-stock in the stores so that sales can be maximized.

In 2009 our Supply Chain System improvements were driven in two directions, logistic execution and sales & purchase planning.

Logistic execution stream had been delivering business-process optimization and new SAP ERP implementation for the following areas: Purchase To Pay cycle optimization for traded goods (delivered in August 2009) and internal logistics operations from distribution centers to stores and in-store stock replenishment (to be delivered in 2010).

Sales & purchase planning stream administered optimization of sales forecasting and planning process at SKU level (delivered in November 2009) as well as purchase planning at SKU level (to be delivered in 2010).

M.video has chosen the Predictix Forecasting & Planning solution as a basic platform to optimize stock and improve stock availability across the chain.

The net benefits of the SCM project will be realised in future years as we will make significant investments in the period of 2010-2012.

Committing to customers, committing to our staff

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

Our customers' loyalty program called 'M.video Bonus' was implemented in 2009. The program was built on the basis of the innovative Oracle Siebel loyalty management CRM-solution.

We were very proud to see that our customers committed to join M.video Bonus program proactively. By the year end 2009 the program had more than 2 million registered participants; each third purchase in our stores were made by M.video Bonus club member. The program?s participants made 5.5 million out of 19.5 million transactions in M.video stores in 2009.

M.video Bonus loyalty program entered the worldwide rating of the best implementation practices of Oracle Corp. and was also awarded with Best CRM solution nomination in a prestigious national CRM Top Awards competition.

We expanded our successful loyalty management experience launching a new co-brand program with one of the leading Russian retail banks in the end of 2009. M.video Bonus MasterCard makes purchases more rewarding for customers and allows them to gain award points when shopping outside our network.

Our customer offering is supported by a 24 hour call centre. Whether a product has been bought from M.video store or not, our consultants and technicians can assist consumers with advice on

Average FTE employee dynamics in 2008-2009

	2008	2009	% change
Headquarters	633	620	(2%)
Call center	123	138	12.2%
E-Commerce	13	19	46.2%
Regional administration	496	536	8%
Stores	9,504	9,727	2.3%
TOTAL HEADCOUNT FTE	**10,769**	**11,040**	**2.5%**

topics ranging from the location and openings times of our stores to how to operate and install products.

WHILE THE ECONOMY WAS SUFFERING FROM THE RECESSION AND SOME BUSINESSES AND ENTERPRISES OPTED TO CUT STAFF OR REDUCE SALARIES M.VIDEO INVESTED IN PEOPLE AND PROVIDED MORE JOB OPPORTUNITIES IN THE CITIES AND REGIONS WHERE WE OPERATE.

Our employees are part of our competitive advantage. We place a premium on employee recruitment and training to build a strong, team-oriented company culture. We provide many different levels of training to ensure that sales staff are knowledgeable on our products and current trends. Our in-house corporate university helps us to develop future store directors and section managers.

While the economy was suffering from the recession and some businesses and enterprises opted to cut staff or reduce salaries M.video invested in people and provided more job opportunities in the cities and regions where we operate.

Corporate Social Responsibility

As we are one of the largest nationwide networks in the consumer electronics and home appliances market we realise that the products we sell make people's life more comfortable but may have an unpredictable impact on the environment.

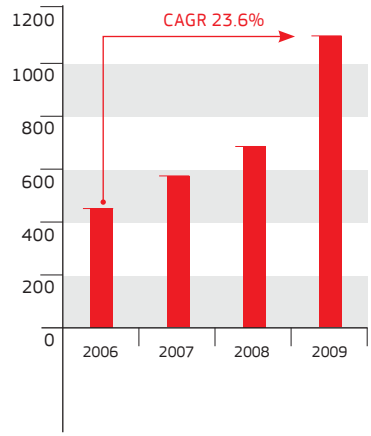
Although our corporate color is red, we are essentially 'green' company and carefully assess the impact we will have on the environment, confessing careful attitude to the surrounding world.

In March of 2009 M.video joined the worldwide campaign 'Hour of the Earth' held under the patronage of the World Wildlife Foundation (WWF). Light signboards and all TV screens were switched off for one hour in all of our stores across Russia symbolizing our support of the WWF initiative. Prior to 'Hour of the Earth' we had promoted the initiative with our customers urging them to participate. 'Hour of the Earth' unites almost a billion people worldwide and demonstrates public appeal to measures on preservation of the environment for future generations.

In June 2009 we stopped the usage of and circulation of the polyethylene packages in our stores aiming at minimization of their harmful influence on the environment. We passed to oksi-biodecomposed packages. All new packages are suitable for storage of consumer products in accordance with the EU guide 90/128/EEC. Following our initiative the consumption of packages in our stores decreased eleven times within the first three months. The business community appreciated our efforts and awarded M.video with the 'Social Initiative of the Year' nomination which we won in the Annual National Retail Awards 2009.

We are committed to paying more attention to energy saving. In December 2009 M.video stopped sales of incandescent lamps which may be replaced with the new high-quality energy-saving lamps. These lamps, on average, consume 80%

Online business development in 2006-2009 (RUB million)



less energy in comparison with incandescent lamps allowing to reduce electricity consumption.

In the end of 2009 M.video joined WWF initiative aimed on the conservation of the vanishing Russian Far East tigers. The initiative will be widely promoted to our customers throughout the network in 2010.

M.video also runs a charitable foundation "Our Initiative" which makes donations to a number of charities, orphanages, health care centers and educational projects across Russian Federation.

Outlook

We will continue to provide innovative products to our customers in all our locations to ensure that they continue believe that M.video is the best place to shop for consumer electronics in Russia.

Our retail team is motivated to increase the number of transactions via the conversion rate growth and maintain the average basket keeping high sales of the accessories and additional services while endeavoring growth of UPT.

We plan to open 30 new stores in 2010. The 30 new stores are backed with a sufficient pipeline but more openings may depend on how fast the real estate sector will recover or taking stores from the competition.

Our online business will remain one of the key development areas in 2010. Last year we separated the retail and internet channels by appointing a new Director in charge of the internet development and made some significant changes to www.mvideo.ru as our main e-commerce tool. We want to ensure that our online business supports our stores but is also equipped to target those customers who prefer to shop using this channel.

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

Relaxation

A TRANQUIL AMBIENCE AND COMFORT, FAVORITE HOBBIES AND VARIOUS HOME APPLIANCES AND ELECTRONIC ENTERTAINMENT – ALL THIS MAKES THE HOME A TRULY BELOVED PLACE

comfort

Air Conditioner
2.6 kilowatt cooling capacity

leisure

LED-LCD HDTV
40'' screen, 120 Hz refresh rate, 1080 p

No1 FOR YOU

impressions

3D Blu-Ray Disk Player
Built in Wi-Fi, Dolby Digital TrueHD and DTS-HD decoders

Financial Performance Review

5

Financial Performance Highlights, 2007-2009

RUB million (without VAT)	2009	2008	2007
Net revenue	72,507	71,486	52,317
Gross profit	18,360	17,876	11,965
As % of net revenue	25.3%	25.0%	22.9%
Operating expenses, net	16,243	15,143	9,881
As % of net revenue	22.4%	21.2%	18.9%
Operating profit (EBIT)	2,117	2,733	2,084
As % of net revenue	2.9%	3.8%	4.0%
EBITDA	3,244	3,596	2,607
As % of net revenue	4.5%	5.03%	4.98%
Net profit	783	1,256	649
As % of net revenue	1.08%	1.8%	1.2%

Revenues

Overall revenue figures were determined by the two key elements, which are LFL sales and sales of new stores. As with majority of companies around the globe our L4L sales declined due to the world's recession but unlike many other companies we continued our expansion and managed to deliver overall sales growth.

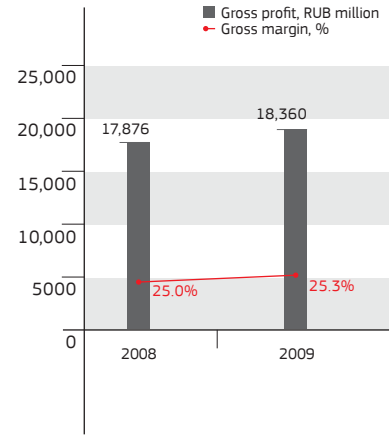
In 2009 the Group continued to focus on the core business which is retail trading. By the year end we discontinued our wholesale channel as we did not require these sales to increase purchase volumes or to give us insight into the regional demand. Retail revenues accounted for 97% of our total revenues in 2009.

Retail sales increased 3.2% to 70.3 billion Russian rubles (RUB) in 2009 from 68.1 billion RUB in 2008. This increase was fuelled by the sales from additional new stores which outpaced the decline in L4L store sales.

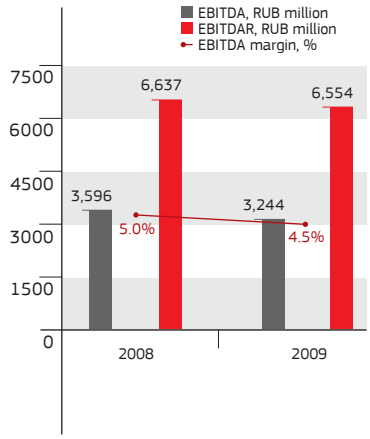
Challenging market conditions and competitive pressures resulted in substantial contraction of consumer electronics market in 2009. LFL store sales declined by 11.6% for the year but this should be seen in light of the estimated market declined of > 30% over 2009.

It is important to note that new store sales include both stores opened in 2008 that were working for the full year in 2009, and the 22 new openings of 2009. The company believes that the expansion program of 2009 was a very good result given the reduction in supply of new shopping centers.

Gross profit and gross margin dynamics in 2008–2009



EBITDA/EBITDAR dynamics in 2008–2009



Gross profit

Gross profit increased to 18.4 billion RUB in 2009 compared with 17.9 billion RUB in 2008. Gross margin increased as a percent of revenue by 0.3% to 25.3% in 2009 comparing to 25.0% in 2008. The increase in the margin was achieved despite the decline in the market and the increase in the promo activities as the company was able to reduce the shrinkage and provision for obsolescence. The company was very focused on the improvements in the areas where we felt our actions would have an impact on the results.

Selling, general and administrative expenses

Our selling, general and administrative expenses increased by 3.8% to 16.6 billion RUB in 2009 from 16.0 billion RUB in 2008. Operating expenses increased by 1.2% as a percent of revenue in 2009 compared to 2.0% in 2008 demonstrating slight reduction in growth rates.

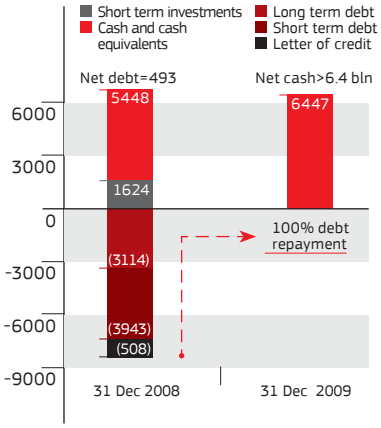
Overall SG&A growth is from two main categories — Depreciation and Rent (including utilities). Both are up as a percentage due to the 2008 stores operating throughout the year and the adding of new stores in 2009 while the revenues they generated just offset the L4L sales decline. With Utilities the rates were significantly increased in 2009.

Payroll and related taxes is the largest and most important expense as most of our 11,000 employees are customer facing and we rely on customer service. The slight decrease in 2009 by 2.1% to 4.29 billion RUB from 4.39 billion RUB in 2008 was achieved despite operating more stores. The company determined that it is better to look at the workloads of the existing employees and where possible, when an employee left the company,

	In millions of RUB and as a % of Total Revenues			
	Year ended			
	31 December 2009		31 December 2008	
Payroll and related taxes	4,292	5.9%	4,386	6.1%
Lease expense	3,310	4.6%	3,041	4.3%
Advertising and promotional expenses	2,493	3.4%	2,462	3.4%
Transportation & warehouse services	1,793	2.5%	2,171	3.0%
Depreciation & amortization and impairment loss	1,127	1.6%	863	1.2%
Other*	3,600	5.0%	3,088	4.3%
TOTAL	**16,615**	**22.9%**	**16,011**	**22.4%**

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

Net debt structure (in Russian rubles, millions)



redistribute the work to other people rather than trying to replace people. It brought improved efficiency and allowed us to keep salaries at the 2008 levels. The added benefit of this approach was that the employees were more motivated as they had more workload for the same salary rather than the same workload for less salary.

Lease expenses increased as a percentage of total revenues between 2009 and 2008 to 4.6% from 4.3%. The main reason for lease expenses to go up as percent was the increased number of stores that operated throughout the period. Many leases were renegotiated downwards during 2009 but these rental rates reductions could not always match the individual store L4L decline.

Advertising and promotional expenses remained almost on the same level in 2009 as compared to 2008. The Group benefited from reduced rates for advertising but the savings were used to increase our gross rating points (GRP's) and support our promotional activities.

Transportation & warehouse service costs decreased by 17% to 1.8 billion RUB in 2009 from 2.2 billion RUB in 2008 as we were able to get certain economies of scale by increasing the density of the stores in certain regions, we renegotiated transport rates with our outsourced suppliers and partially as a result of opening a new warehousing facility in Nizhny Novgorod.

Depreciation and amortization expenses increases are a direct result of the capital expenditure on 2008 and 2009 new stores.

Other operating income and expenses

Other operating income decreased to 536 million RUB in 2009 from 1,001 million RUB for the year ended 31 December 2008. The primary reason behind the decrease in other operating income is the loss of a significant amount of consumer credit commissions earned from the banks who provided in-store loans to our customers.

Operating profit

Operating profit decreased by 22.5% to 2.1 billion RUB in 2009 from 2.7 billion RUB in 2008. As a percentage, the operating profit decreased to 2.9% in 2009 from 3.8% in 2008.

Net finance costs

Our net financing expenses increased in total by 117.5% to 794 million RUB in 2009 from 365 million RUB in 2008.

The reduction in interest expense to 303 million RUB from 415 million RUB was a combination of higher interest rates but on a significantly lower loan portfolio. We moved to a net cash position in September 2009 and remained in net cash for the full 4th quarter. Interest income was significantly lower in 2009 as we moved all cash to banks with a very good credit rating.

The net exchange rate loss in 2009 should be netted against exchange rate gains reported in 2008 as at 31 December 2009 there was a significant difference in the spot rates for foreign currencies applied

Net cash flows from operating, investing and financing activities, 2008–2009.

	Year ended	
	31 December 2009	31 December 2008
Operating cash-flows	3,409	4,146
Movements in working capital, income tax and interest payments	4,703	(44)
Net cash generated / (used in) operating activities	8,112	4,102
Net cash used in investing activities	231	(2,562)
Net cash generated from financing activities	(7,504)	1,347
Net increase in cash and cash equivalents	839	2,887

to loan balances and the future rates for these same currencies applied to the forward contracts.

Income tax expense

The effective tax rate for 2009 was 40.8% compared to 47.0% in 2008. The reduction in effective rate was achieved primarily through improvement in inventory control which resulted in substantial decrease in losses due to inventory shortages. Also tax rate change to 20% from 24% contributed to overall improvement in effective tax rate.

Net profit for the year

Net profit for the year decreased by 38% to 783 million RUB in 2009 from 1,256 million RUB in 2008.

Assets & liabilities

In 2009 the Group continued to work on simplifying the Balance Sheet and reducing the reliance on debt. The primary focus was on the working capital optimization. As a result of our focus on working capital the group was able to end the year debt free and with a considerable of free cash.

Cash-flows

Cash flow from operating activities
The Group was able to increase cash generated by operations to 8.1 billion RUB in 2009 from 4.1 billion RUB in 2008 by optimizing our trade conversion cycle section.

The Trade conversion cycle improved by 34 days compared to 2008. It indicates that it took the Group 34 fewer days to convert inventory and corresponding receivables into cash. It takes into consideration inventory, trade and other accounts receivable and trade accounts payable. The main achievement was in trade accounts payable which improved by 37 days as a result of negotiations with our suppliers and the reduction of obsolete and slow moving stock.

Cash flow from investing activities
Inflow of cash from investing activities occurred due to redemption of deposits in 2009 that were placed with banks in 2008 in the amount of 1.8 billion RUB. The amount of redemption was greater than investing requirements of 2009 expansion program.

Cash flow from financing activities
Financing cash outflow of 7.5 billion RUB reflects full repayment of the Group borrowings by the end of the year. The Group used the cash generated by operations in repaying financial obligations.

Net debt (cash)

M.video's net debt of 0.5 billion RUB in 2008 turned into a net cash position of 6.4 billion RUB in 2009.

Long-term incentive program ("LTIP")

The company initiated Series 3 of the LTIP in December 2009. The LTIP was given to 56 key people within the group to help with retention. The LTIP is an equity based program.

Friendship

THE TECHNOLOGICAL SUPERIORITY, FANCY DESIGN AND USER-FRIENDLY FEATURES OF THE PRODUCTS IN M.VIDEO STORES MOTIVATE PEOPLE TO SHARE THEIR HOBBIES AND BECOME CLOSER

impressions

Digital SLR Camera
18-55mm zoom lens,
CMOS sensor, full HD video

leisure

Digital Video Camcorder
25x optical zoom, 3.0 MP digital still memory, shot stabilization

No1 FOR YOU

experience

Digital Camera
2.7» LCD, image processor,
face detection technology

Board of Directors

From left to right[1]

1. David Hamid
Independent Board Member

2. Christopher Parks
Board Member,
Chief Financial Officer

3. Peter Györffy
Independent Board Member,
Chairman of the Board

4. Utho Creusen
Independent Board Member

5. Alexander Tynkovan
Board Member,
CEO/President

6. Pavel Breev
Board Member, Expansion Director

7. Ilpo Helander
Independent Board Member,
Vice Chairman of the Board

8. Stuart Leighton
Independent Board Member

9. Mikhail Kuchment
Non-executive Board Member

[1] Full biographies are avialable at www.mvideo.ru

Management Team

Alexander Tynkovan
CEO and President

Pavel Breev
Expansion Director

Enrique Fernandez
Commercial Director

Stephen Lewis
Retail Director

Christopher Parks
Chief Financial Officer

Christopher Mangham
IT Director

Irina Ivanova
Supply Chain Director

Olga Terpigoreva
HR Director

Tatiana Okutina
Marketing Director

Maxim Zakhir
E-Commerce Development Director

Konstantin Nechaev
Project Director

Love

SOMETIMES PEOPLE ARE BEING SEIZED BY STRONG FEELINGS THAT MAKE THEM TRULY CARE ABOUT EACH OTHER. IN OUR STORES WE HELP SOME OUR CUSTOMERS TO FLOURISH AND PRESERVE THESE BEAUTIFUL EMOTIONS FOR YEARS

ambience

Range Hood
2-speed fan, cooking surface light, removable filter

comfort

Stainless Steel Microwave
Sensor cooking settings, defrost, child lock

pleasure

Teapot
1500 watt heating element, 360° rotating base post, auto off function

No1 FOR YOU

Corporate Governance

8

M.VIDEO COMPLIES WITH THE RUSSIAN CORPORATE CONDUCT CODE AND ASPIRES TO COMPLY WITH THE BEST INTERNATIONAL STANDARDS OF CORPORATE GOVERNANCE

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

Board of Directors

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

M.video's Board of Directors has 9 members, five of whom are fully independent of the Company. Our Board members bring with them extensive experience of retailing, consumer electronics and supply chain.

At 31 December 2009 the Board of Directors was chaired by Peter Györffy, an independent director. At this date other Board members included: Mr. Alexander Tynkovan, the Company's founder and CEO, Mr. Pavel Breev, our Expansion Director and shareholder, Mr. Christopher Parks, CFO and independent directors Mr. David Hamid, Mr. Ilpo Helander (Vice Chairman), Mr. Stuart Leighton and Mr. Utho Creusen as well as non-executive director, Mr. Michael Kuchment.

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

Audit Committee Report

The Committee is primarily responsible for reviewing and monitoring the integrity of financial reporting by the Company, for reviewing the Group's internal control systems, for monitoring the effectiveness of the Group's internal audit function and for overseeing the relationship with the external auditor. The full list of responsibilities and requirements of the audit committee is set out at on the web-site of M.video at http://invest.mvideo.ru/path/?go=54.

The audit committee comprises two independent non-executive directors - Stuart Leighton, Chairman and Ilpo Helander. In accordance with its terms the audit committee has sufficient recent relevant financial experience.

The committee met 6 times in 2009, with both independent members of the audit committee at-

tending all meetings. Meetings were also attended by the Group Chief Financial Officer, Group Financial Controller, Head of Internal Audit and the lead partner of the external auditors (Deloitte) was also present. Other senior management are invited to attend when the business of the committee requires.

During the year the committee held separate sessions, without the presence of executive management, with only the external auditors present and only the internal auditor present , to facilitate the discussion of any matter relating to its remit and any issues arising from audits. Arrangements have also been adopted to ensure that the Head of Internal Audit has direct access to the Committee chairman and is accountable to the Committee. Furthermore, the Chairman of the Committee meets from time to time with the external auditor and senior management to ensure a full understanding of relevant issues.

At its meetings in 2009, the Committee considered, amongst other matters, the following:

Financial Reporting:

- Reviewed the interim management statements, half-yearly and annual financial statements (prepared in accordance with International Financial Reporting Standards ("IFRS")), including critical accounting policies, estimates and judgements applied in preparing them and the transparency and clarity of the disclosures within them;

- Received reports and recommendations from management and the external auditor on accounting and tax issues.

Internal Control:

- Received progress and status reports from management on the implementation of financial reporting procedures, processes and controls, and IT systems;

- Reviewed recommendations made by both external and internal auditors in relation to potential improvements in internal controls and followed these recommendations up with the management team.

Internal audit:

- The proposed internal audit departments work programme for the year was reviewed and agreed by the committee;

- Reviewed the level of resources and training allocated to the internal audit department to ensure the audit plan could be delivered effectively by the internal audit department;

- Received and discussed regular updates on the progress of the internal audit department against its schedule of audits, is notified of their key findings and tracks any material actions that are overdue or have been rescheduled.

External Audit:

- Approved the terms of engagement of the external auditor, the fees paid to them and the plan of work carried out by them;

- Reviewed policies on the independence of the external auditor and the provision of non-audit services;

- Received reports on the findings of the external audit and reviewed the recommendations made to management by the external auditor and management's responses;

- Carried out a tender for the audit during the year and considered the proposed fee structure and audit engagement terms for 2010 and has recommended to the board that ZAO Deloitte & Touche CIS be reappointed as the external auditor of the financial statements prepared in accordance with IFRS and also be appointed as the statutory auditor for individual Group companies.

Other Activities:

- Reviewed the committees terms of reference;

- Conducted and annual review of the committees performance and effectiveness. For 2009, this review was facilitated as part of a wider review of the board and its committees. The review concluded that the audit committee was effective in carrying out its duties.

Stuart Leighton,
Audit Committee Chairman

Remuneration and Nomination Committee Report

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

The role of the Remuneration Committee is described in its charter which is available on the Company's website under http://invest.m-video.ru/path/?go=54.

On 31 December 2009 the Remuneration Committee consisted of Mr. Utho Creusen (Chairman), Mr. David Hamid and Mr. Peter Györffy.

The Committee had seven meetings in 2009.

Despite challenging economic environment we have endeavored to retain incentive and reward for a team that continues to outperform the market. To this end a new LTIP program was under consideration of the Committee observing different alternatives to offer top team managers an attractive compensation package which is focused on rewarding the creation of long term shareholder value. The new LTIP (2010 – 2015) was presented and approved by the Board in December 2009.

During the year we continued to strengthen the team adding top caliber recruits to the executive team. Looking forward we now seek to introduce a better level of succession planning into the company at all levels. In its meetings the Committee discussed and defined requirements and expectations regarding succession planning and talented management promotion.

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

Utho Creusen,
Remuneration and Nomination
Committee Chairman

Shareholder Information

In the Russian Federation our shares are traded on the Russian Trading System (RTS) and on the Moscow Interbank Currency Exchange (MICEX) under the following symbols and tickers:

Share tickers		
Exchange	Bloomberg ticker	Reuters ticker
MICEX	MVID RM	MVID MM
RTS	MVID RU	MVID.RTS

International identification codes	
Name	Code
ISIN	RU000A0JPGA0

Share Information	
Date of IPO (RTS/MICEX)	1.11.2007
Offer price	USD 6.95
Capital raised for operations	USD 203 million
Price at 31.12.2009	USD 3.97
High/Low	USD 8.80/USD 0.69
Market Capitalisation	USD 713 million as of December 31, 2009
Shares outstanding	179,768,227
Free float	29.4%

Registrar Information

OJSC "Moscow Central Depositary" ("MCD")

34/8, Bolshaya Pochtovaya str., Moscow, 105082, Russia
Telephones: +7 (495) 221-13-35, +7 (495) 221-13-33, +7 (495) 221-13-34
E-mail: info@mcd.ru

Web: www.mcd.ru

Contacts

Headquarters

OJSC "Company "M.video" 40/12 Building 1
Nizhnaya Krasnoselskaya Str.
Moscow, 107066, Russia
Tel + 7 (495) 644-28-48 ext. 7064
E-mail: ir@mvideo.ru

Official website: invest.mvideo.ru

For investor relations purposes please contact:

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

Confidence

AT A FIRST GLANCE ON THE GOODS SOLD IN M.VIDEO STORES OUR CUSTOMERS FEEL CONFIDENT ABOUT HOW SAFE AND DURABLE THEY ARE. YOUR NEAR AND DEAR WILL BE THOROUGHLY PROTECTED USING THESE GOODS

ambience

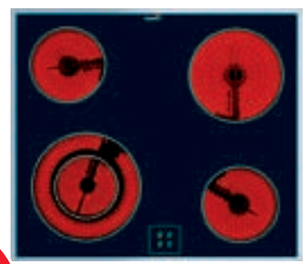
Range Hood
Centrifugal blower, 3-speed fan, aluminum filter

comfort

Built-in Electric Convection Oven
True Convection cooking system, self-cleaning, delay-bake

experience

Built-in Electric Cook Top
3000 watt power, 4 ribbon heating elements, 3-speed downdraft fan



No1 FOR YOU

Open Joint Stock Company "Company M.video" and subsidiaries Consolidated Financial Statements for the Year Ended 31 December 2009

9

Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended 31 December 2009

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 44 is made with a view of distinguishing the respective responsibilities of the management and those of the independent auditors in relation to the consolidated financial statements of OJSC "Company M.video" and subsidiaries (the "Group").

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

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

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

Management is also responsible for:

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

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

A. Tynkovan
Chief Executive Officer

C. Parks
Chief Financial Officer

Deloitte & Touche CIS
Business Center "White Square"
5 Lesnaya St., Bld. B
Moscow, 125047, Russia

Tel: +7 (495) 787 0600
Fax: +7 (495) 787 0601

Independent Auditors' Report

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

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Deloitte & Touche

Moscow
24 May 2010

Consolidated Balance Sheet as at 31 December 2009, in millions of Russian Rubles

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

Consolidated Balance Sheet (Continued) as at 31 December 2009, in millions of Russian Rubles

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

The Notes on pages 51 to 88 form an integral part of these consolidated financial statements. The independent auditors' report is presented on page 44.

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

A. Tynkovan
Chief Executive Officer

C. Parks
Chief Financial Officer

Consolidated Statement of Comprehensive Income for the year ended 31 December 2009, in millions of Russian Rubles, except earnings per share

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

The Notes on pages 51 to 88 form an integral part of these consolidated financial statements. The independent auditors' report is presented on page 44.

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

A. Tynkovan
Chief Executive Officer

C. Parks
Chief Financial Officer

Consolidated Statement of Changes in Equity for the year ended 31 December 2009, in millions of Russian Rubles

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

The Notes on pages 51 to 88 form an integral part of these consolidated financial statements. The independent auditors' report is presented on page 44.

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

A. Tynkovan
Chief Executive Officer

C. Parks
Chief Financial Officer

Consolidated Statement of Cash Flows for the year ended 31 December 2009, in millions of Russian Rubles

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

Consolidated Statement of Cash Flows for the year ended 31 December 2009, in millions of Russian Rubles (Continued)

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

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

The Notes on pages 51 to 88 form an integral part of these consolidated financial statements. The independent auditors' report is presented on page 44.

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

A. Tynkovan
Chief Executive Officer

C. Parks
Chief Financial Officer

Notes to the Consolidated Financial Statements for the year ended 31 December 2009, in millions of Russian Rubles

1. General information

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

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

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

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

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

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

Shareholders

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

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

Ultimate Shareholders

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

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

2. Basis of preparation

Statement of compliance

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

Basis of Accounting

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

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

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

Adoption of the new standards and interpretations

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

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

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

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation";
- Improvements to IFRSs (May 2008).

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

Amendment to IFRS 7 "Financial Instruments: Disclosures"
These amendments were issued in March 2009 and are applicable to annual periods beginning on or after 1 January 2009. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The required disclosures in respect of fair value measurements and liquidity risk are not significantly impacted by the amendments and are presented in Note 32. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

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

IAS 1 "Presentation of Financial Statements" (as revised in 2007)
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity are presented in a reconciliation of each component of equity. In addition, the standard introduces a statement of comprehensive income: it presents all items of income and expense recognised in the income statement, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

3. Significant accounting policies

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

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

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

All intra-group transactions, balances, income and expenses and profits and losses resulting from intragroup 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 profit or loss in the period in which they arise. Exchange differences arising on loans and borrowings are reported as part of finance cost, while exchange differences related to operating items are included into other operating income and expenses.

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

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

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

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

For leasehold improvements the depreciation period includes the period when the Group has the possibility to extend the period of the lease, taking into account the legal provisions relating to lease terms, and its intention to seek a long term presence in the various retail locations in which it operates. This is relevant for

leases of retail space which, on a portfolio basis, have a history of successful renewal. All other leasehold improvements are depreciated over the shorter of useful life or the related lease term.

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

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

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

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

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

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

Software licenses	5-10 years
Trademarks	5-10 years

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

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

Current tax

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

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable

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

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

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

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

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

Current and deferred tax for the period

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

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

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

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

Effective interest method

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

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

Financial assets as at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

Held-to-maturity investments

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

Loans and receivables

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

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

Available for sale financial assets

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

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

Impairment of financial assets

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

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

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

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

Derecognition of financial assets

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

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

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instrument

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

Financial guarantee contract liabilities

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

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

Financial liabilities

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

Financial liabilities as at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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

Other financial liabilities

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

Derecognition of financial liabilities

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

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

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

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

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

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

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

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

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

Inventories – Inventories are recorded at the lower of average cost or net realizable value. In-bound freight related costs from our suppliers are included as part of the net cost of merchandise inventories. Certain supplier bonuses that are not reimbursement of specific, incremental and identifiable costs to

promote a supplier's products are also included in the cost of inventory. Other costs associated with storing and transporting merchandise inventories to our retail stores are expensed as incurred and included as part of selling, general and administrative expenses.

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

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

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

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

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

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

Warranties

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

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

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

Sale of goods

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

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be reliably measured;

- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

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

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

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

Revenue from services

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

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

Additional service agreements

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

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

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

Agents

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

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

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

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

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

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

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

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

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

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

4. Standards and Interpretations in issue not yet adopted

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

- IFRS 2 "Share-Based Payment" – Group Cash-settled Share-based Payment Transactions;
- IFRS 3 "Business Combinations" (as revised in 2008), IAS 27 "Consolidated and Separate Financial Statements" (as revised in 2008) and IAS 28 "Investments in Associates" (as revised in 2008);
- IFRS 9 "Financial Instruments";

- IAS 24 "Related Party Disclosures" (as revised in 2009);
- Amendment to IAS 32 "Financial Instruments: Presentation" – Classification of Rights Issues;
- IFRIC 9 "Reassessment of Embedded Derivatives" and Amendment to IAS 39 "Financial Instruments: Recognition and Measurement";
- IFRIC 17 "Distribution of Non-Cash Assets to Owners";
- IFRIC 18 "Transfers of Assets from Customers";
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments";
- Improvements to IFRSs (2009);
- Improvements to IFRSs (2010).

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

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

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

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

IFRS 9 "Financial Instruments"

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

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

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

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

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

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

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

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

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

IFRIC 18 "Transfers of Assets from Customers"

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

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

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

Improvements to IFRSs

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

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

5. Critical accounting judgments and key sources of estimation of uncertainty

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

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

Significant estimates and assumptions

Inventory valuation

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

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

(a) Stock held for resale – comparison of expected selling price versus the carrying value on a stock keeping unit basis;

(b) Damaged goods – examination of historical data relating to discounts associated with damaged goods and comparison to book value at the balance sheet date;

(c) Stock held at service centers – an allowance is applied based on management estimate of the carrying value of the inventory;

(d) Additional allowance is accrued for if there is actual evidence of a decline in selling prices after the end of the reporting period to the extent that such decline confirms conditions existing at the end of the period.

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

Tax and customs provisions and contingencies

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

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

Recovery of deferred tax assets

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

Share-based payments

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

Useful life of property, plant and equipment

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

Impairment of property, plant and equipment and intangible assets

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

Revenue attributed to loyalty program points

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

Critical judgments in applying the entity's accounting policies

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

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

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

The fixed commission paid to a related party service centre to provide coverage for the Group's obligations under the additional service agreements is recognized immediately as part of cost of sales. Other direct

costs associated with the sale of additional service agreements, such as sales bonuses paid to shop assistants are disclosed as part of selling, general and administrative expenses.

Supplier bonuses

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

6. Property, plant and equipment

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

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

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

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

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

Impairment of property, plant and equipment

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

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

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

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

7. Intangible assets

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

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

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

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

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

8. Inventories

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

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

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

9. Other accounts receivable and prepaid expenses

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

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

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

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

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

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

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

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

Carrying value of other accounts receivable approximates their fair value.

10. VAT recoverable and other taxes receivable

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

in millions of Russian Rubles	2009	2008
VAT recoverable	1,159	1,484
Other taxes receivable	-	5
Total	**1,159**	**1,489**

11. Short-term investments

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

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

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

12. Cash and cash equivalents

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

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

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

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

13. Share capital

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

in millions of Russian Rubles	Issued ordinary shares	Authorized ordinary shares
As at 1 January 2008	179,768,227	209,768,227
As at 31 December 2008	179,768,227	209,768,227
As at 31 December 2009	**179,768,227**	**209,768,227**

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

Dividends

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

14. Long-term loans and borrowings

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

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

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

15. Income tax

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

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

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

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

The statutory tax rate effective in the Russian Federation during 2008 was 24%. According to Federal Law No. 224-FZ dated 26 November 2008 the changes were made to the Tax Code of the Russian Federation and corporate profit tax rate was reduced to 20% effective from 1 January 2009.

As at 31 December 2009 and 2008 the Group measured deferred tax liabilities and deferred tax assets using tax rate 20%, which is the rate expected to be applied in the period in which the liability is settled or the asset is realized.

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

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

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

16. Short-term loans and borrowings

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

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

17. Trade accounts payable

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

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

Trade accounts payable are non-interest bearing and are normalli settled between 30 and 90 days, depending on individual supplierterms. For terms and conditions relating to related party payables refer to Note 29.

18. Other payables and accrued expenses

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

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

19. Other taxes payable

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

in millions of Russian Rubles	2009	2008
Payroll taxes	84	79
VAT payable	-	13
Other taxes payable	48	46
Total	**132**	**138**

20. Deferred revenue

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

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

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

21. Provisions

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

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

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

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

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

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

22. Revenue

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

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

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

23. Cost of sales

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

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

24. Selling, general and administrative expenses

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

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

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

25. Other operating income

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

26. Other operating expenses

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

27. Finance Costs, Net

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

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

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

28. Share-Based Payments

Employee share option plan

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

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

Long-term incentive plan – Series one

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

which vested on 1 April 2009 (tranche two) were exercised (2008: 166,500). The additional 40,000 granted shares were forfeited before 31 December 2009 (2008: 10,000).

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

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

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

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

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

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

Long-term incentive plan – Series two

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

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

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

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

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

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

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

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

Long-term incentive plan – Series three

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

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

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

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

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

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

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

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

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

Balance at the end of the financial year

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

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

29. Related Parties

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

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

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

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

The nature of transactions with related parties is as follows:

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

- Transservice Group of Companies – provides after sale and other servicing of the Group's merchandise;

- LLC "Universal Service" – provides after sale servicing and other related servicing of merchandize sold in connection with additional service agreements;

The ultimate parent entity

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

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

Immediate parent entity

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

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

Terms and conditions of transactions with related parties

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

Compensation of key management personnel of the Group

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

in millions of Russian Rubles	2009	2008
Short-term benefits*	173	143
Share-based payments	1	35
Total	**174**	**178**

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

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

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

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

30. Operating lease arrangements

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

Payments recognized as an expense

in millions of Russian Rubles	2009	2008
Minimum lease payments	3,288	3,101
Contingent rentals	22	-
Total	**3,310**	**3,101**

Non-cancellable operating lease commitments

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

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

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

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

Future minimum rental payments will be subject to VAT.

31. Commitments and contingencies

Operating environment

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

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

Russian Federation tax and regulatory environment

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

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

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

Customs

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

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

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

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

License Agreements

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

Litigation

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

Environmental matters

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

Guarantees

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

32. Financial Risk Management Objectives and Policies

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

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

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

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

Capital risk management

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

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

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

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:

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

Foreign currency risk management

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

Interest rate risk management

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

Credit risk management

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

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

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

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

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

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

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

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

Liquidity risk management

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

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

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

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

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

Fair value of financial instruments

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

33.Subsequent Events

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

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