ANNUAL REPORT 2012

OJSC “Company “M.video”
Annual Report 2012

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Statement from Chairman and CEO

Peter Györffy, Chairman of the Board of Directors. Alexander Tynkovan, Chief Executive Officer.

To all our shareholders!

With a total revenue of RUB 133,6bn and a net profit of RUB 4,1bn M.video not only underpinned its clear no. 1 position on the Russian market, but delivered again all-time-high figures, despite continuously increased and aggressive promotional activities from competitors' side.

M.video's performance was based on a sustainable business of the existing store-network, the opening of 42 new stores and the roll-out of our Internet operations to 16 new cities in Russia.

After more than a decade of focusing on one store format of around 2.000 m2 sales-space, a second smaller format of ca. 1.000 m2 has been added in various locations throughout the year. This strategic step has been done after a pilot in over 5 stores and careful analysis of the results. It should enable us to anchor the M.video offer also in those cities where the standard format would be too large. This strategic step will lead to a much higher coverage of the countries' population with M.video stores.

Our unchanged, exclusive focus on the Russian territory allowed us to fully concentrate our capacities to further exploit the existing opportunities of our home-market.

During the whole year the dominating global theme was the impact of the Internet on Consumer Electronic products and how it would change the business models of manufacturers and retailers in the future.

Despite all digital technology & media, software & applications customers already benefit nowadays, we at M.video are convinced that the changes in technology, communication & interaction and shopping behaviour are only in the beginning of a rapid development, which hardly can be anticipated.

As a bricks & mortar retailer, we are fully convinced that modern retailers, which combine unique & exciting shopping experience of physical stores with all possibilities of online interaction & transaction will offer the maximum to the customer of the future.

As a logical consequence our Omni-Channel approach of “everything – everywhere – every time” will become an integrated part of modern and profitable retailing. The openness of the Russian consumer towards the Internet is offering us a huge opportunity.

The implementation of this strategy firstly requires the support by state-of-the-art information technology and significant financial investments in IT systems over the next years. With our “best of breed” systems strategy we are convinced that we are following the right approach. Secondly, continuous work on the improvement of our efficiency is necessary to ensure high profitability of our Omni strategy, when total price transparency on the Internet puts prices and margins under pressure.

Finally the success will depend on the extent, to which the integration of the Internet will be reflected in our organizational structures, our processes and in the thinking of all our employees.

Considering all our efforts to manage this transformation process as one of the worldwide leaders of this change, we are sure of M.video’s long-term success.

Peter Györffy.

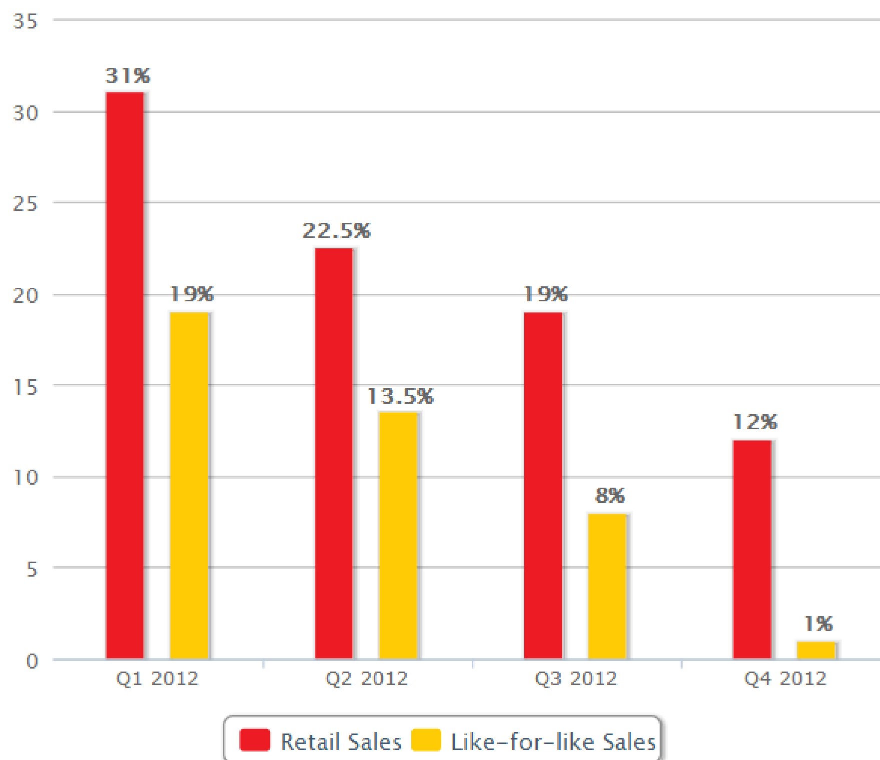
Alexander Tynkovan.

Operational Performance Review

M.video is the largest consumer electronics and home appliance retailer in the Russian Federation by revenue. We opened our first retail store in the downtown Moscow in 1993 and as of the end of 2012 our business has grown into a nationwide retail network of 296 stores in 127 cities all over Russia.

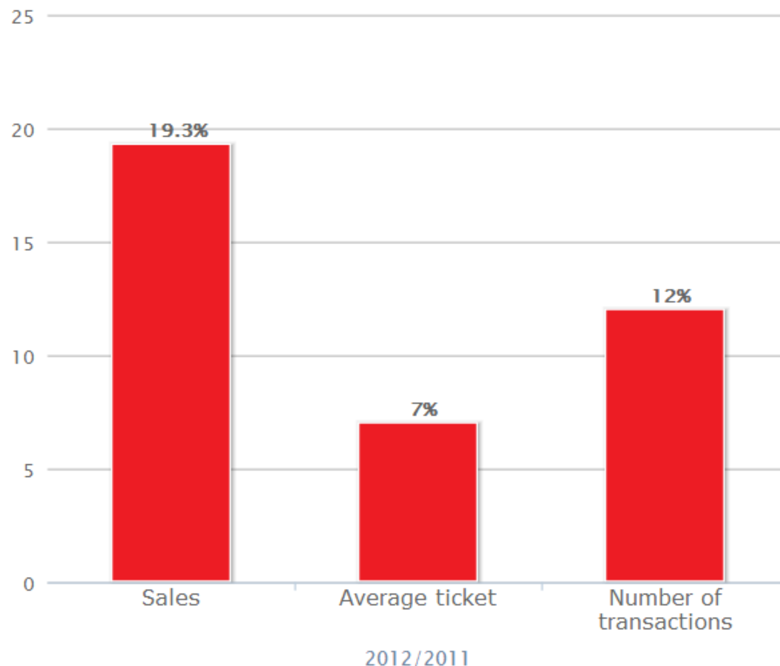
Development of consumer electronics retailing in 2012 in the Russian Federation was unsteady. The beginning of the year, particularly Q1 2012 was marked by increased consumption due to the domestic situation (elections which followed by additional financing of public sector workers, deterrence of utility prices and inflation, etc.), while in Q2 2012 and other quarters we saw some stagnation of the consumers' demand for home electronics.

Revenue and LFL sales dynamics in Q1-Q4 2012.



Irrespective of the factors mentioned above, in 2012 M.video stores were visited by more than 155 million people: in our estimate 20% out of them made a purchase. Average transaction amount (average basket or average ticket) came up to 5,300 Russian rubles, RUB (including VAT) as compared to 5,000 RUB the year before.

M.video retail indicators growth in 2012 (as % to 2011).

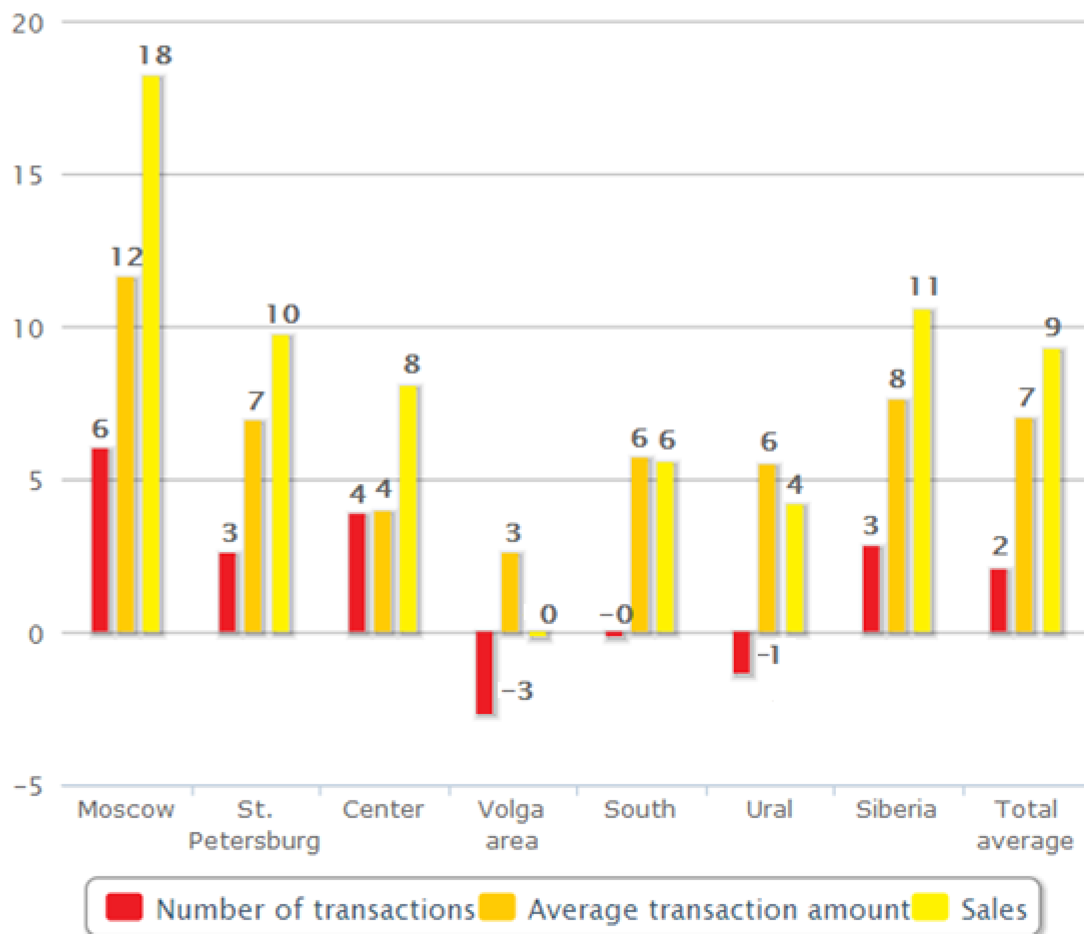


The total growth in sales of more than 19% was achieved due to the average basket increase by 7% and growth in the overall number of transactions by 12% thanks to the opening of the new stores. Our like-for-like sales (LFL, same stores sales) increased by 9.3% in 2012 on the back of the average basket and the number of transactions growth by 7% and 2% respectively. The average basket growth was the primary driver of the LFL sales increase in 2012 triggered by the wide proposition of hi-tech products and new gadgets in all major categories.

We saw the most significant increase of sales year on year in Digital and in Large Home Appliances and the least increase in Entertainment due to the market trend and ongoing minimization of music/movie CDs and DVDs assortment in our stores.

In 2012 some of the digital categories were leading the revenue development. We more than doubled our Smartphones sales increasing the share of smartphones up to 85% of the total mobile phones sales. Tablets sales grew threefold while the iPad sales increased 100% year on year.

Transactions, average ticket and like-for-like sales dynamics in 2012 (as % to 2011).



The best LFL performance was achieved in Moscow and in Siberia due to the average check growth and in St. Petersburg due to pro-active marketing campaign in the second half of the year resulted in some traffic increases.

Our internet channel again was very successful in 2012 with the overall growth of 56% year on year. The Moscow Internet market is very competitive as the players all attempt to gain market share in Russia's capital. M.video was able to grow significantly sales on the internet while still having positive LFL in the Moscow stores. The success of the Moscow model encourages the Company to roll out the internet to a further 16 cities within Russia.

The LFL sales efficiency (sales per Full Time Equivalent employee, FTE) increased by 8% in 2012. More than one third of our stores exceeded RUB 1mln sales per FTE.

The Employee Turnover in 2012 achieved a record break level of 56.4% since 2007 and 2.5% in December.

Expansion of the network

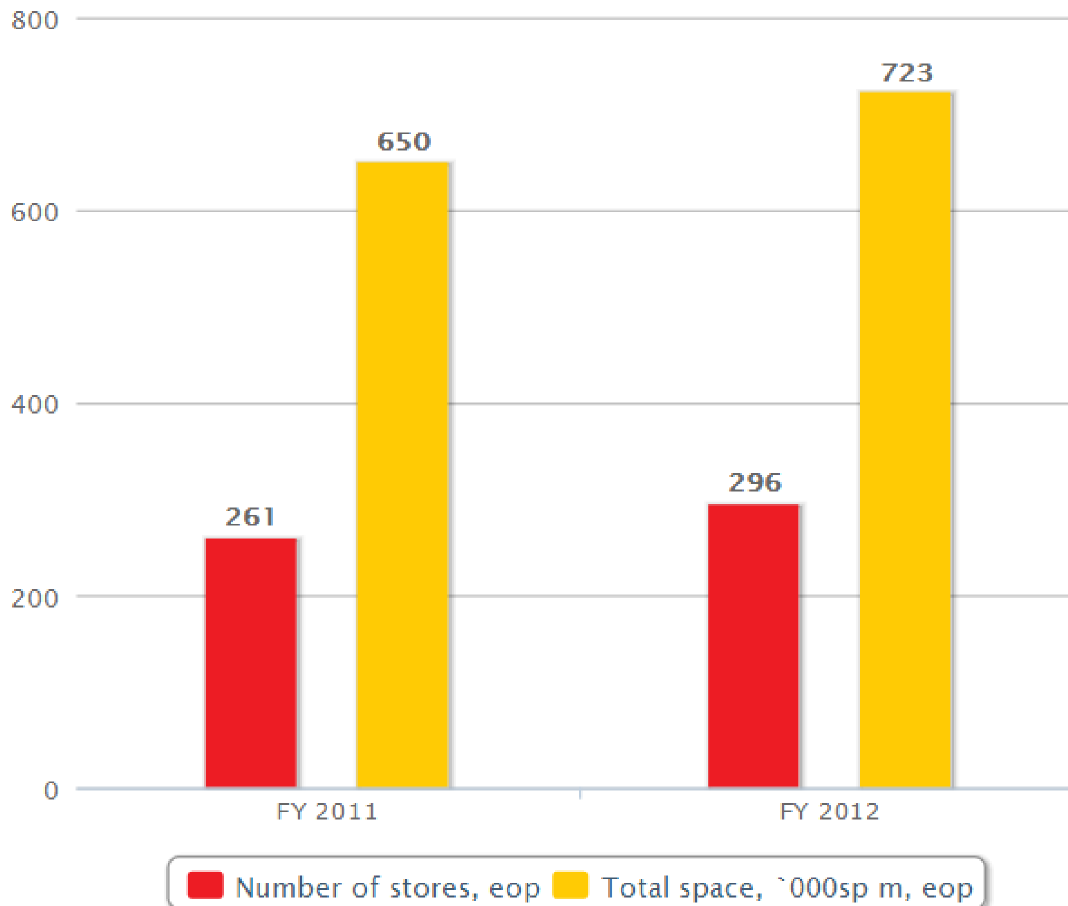
We opened 42 new stores in 2012 and also closed 7 stores due to low efficiency and relocation of some of the existing outlets. We continued expansion to 13 new cities, mainly to the South and Central regions of Russia. The total number of our stores by the end of the year amounted to 296 in 127 Russian cities.

M.video locations

M.video: cities of operation	Number of Stores
Moscow and Moscow area	50
Saint-Petersburg	15
N.Novgorod	7
Volgograd, Yekaterinburg, Krasnodar, Rostov-on-Don	6
Kazan, Novosibirsk, Chelyabinsk	5
Orenburg, Perm, Samara, Ufa, Yaroslavl	4
Astrakhan, Barnaul, Vologda, Voronezh, Krasnoyarsk, Lipetsk, Omsk, Penza, Saratov, Sochi, Stavropol, Tolyatti, Tyumen, Ulyanovsk	3
Arkhangelsk, Balakovo, Vladimir, Zelenograd, Ivanovo, Izhevsk, Irkutsk, Kaluga, Kemerovo, Kirov, Kursk, Nalchik, Nizhnevartovsk, Novorossiysk, Orel, Pyatigorsk, Ryazan, Saransk, Stary Oskol, Syktyvkar, Taganrog, Tomsk, Tula, Ulan-Ude, Cheboksary, Cherepovets, Yakutsk	2
Almetyevsk, Anapa, Arzamas, Armavir, Belgorod, Berezniki, Biysk, Bratsk, Bryansk, Vladikavkaz, Volgodonsk, Volzhsky, Gubkin, Dimitrovgrad, Dmitrov, Domodedovo, Dubna, Essentuki, Zheleznogorsk, Yoshkar-Ola, Kislovodsk, Kolomna, Kolpino, Kostroma, Krasnogorsk, Kurgan, Magnitogorsk, Maykop, Makhachkala, Mezhdurechensk, Mineralnye Vody, Naberezhnye Chelny, Nevinnomyssk, Nizhnekamsk, Nefteyugansk, Nizhniy Tagil, Novokuznetsk, Novotroitsk, Novy Urengoi, Noginsk, Noyabrsk, Nyagan, Obninsk, Odintsovo, Oktyabrsky, Orekhovo-Zuevo, Orsk, Pervouralsk, Petrozavodsk, Pskov, Salavat, Severodvinsk, Seversk, Sergiev Posad, Serpukhov, Sterlitamak, Syzran, Tambov, Tver, Tobolsk, Tuapse, Ukhta, Khanty-Mansiysk , Cherkessk, Shchelkovo, Electrostal, Engels	1
Total number of cities: 127	**Total number of stores: 296**

The selling space of M.video stores amounted to 537,000 square meters (sq. m), the total space amounted to 723,000 sq. m as of the year end 2012, demonstrating an 11% increase year on year. Sales per sq. m of selling space amounted to 308,000 RUB (including VAT) in 2012.

Number of stores and growth in store area in 2012.



In the end of 2011 we launched a new store concept for our 2,000 sq. m stores. The new concept is designed around simplification of in-store navigation while showcasing the latest technologies and promoting our brand. The stores with the new concept enjoy a noteworthy increase in traffic and sales as well as favorable customers' reaction.

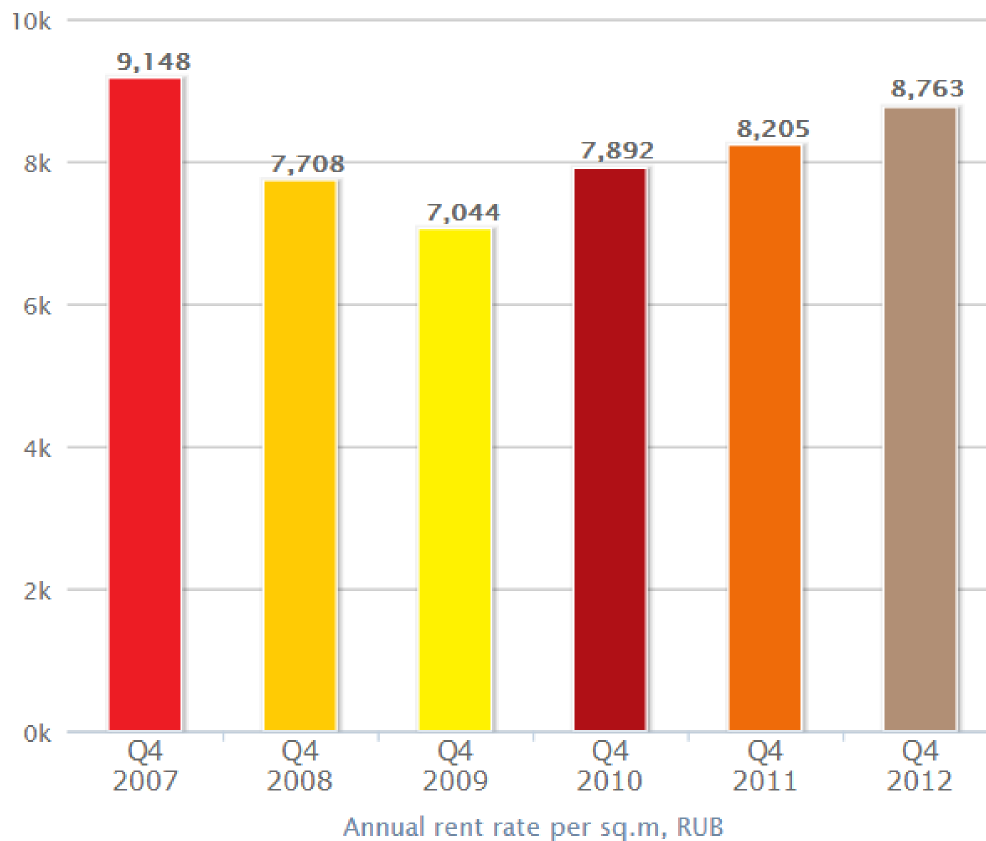
All new stores in 2012 were opened in the new concept; we also reconstructed 14 old stores and adopted them to the new concept. The number of stores in the new concept reached 67 outlets or 23% of the portfolio. We will continue to roll this concept out to our new and reconstructed stores in the future.

In 2012 M.video continued to implement its strategy of increasing the density of operations to get economies of scale on advertising and supply chain costs and to increase our market share in those cities. The number of cities with three and more stores increased to 29, including Moscow and Saint Petersburg.

Our store profile includes 257 of our stores in shopping malls and 39 stand-alone destinations. We lease 90% of our stores while own 10% of stores. More than 70% of our new stores in 2012 were opened in the shopping malls with 100,000+ sq. m total size.

In 2012 we saw a 7% average increase in the rent rates for the new openings which was fully justified by the LFL revenue growth.

Rent rates dynamics for the new stores opened in Q4 2007-2012.



The average time it takes us to open a store is 3-4 months, and we invest 46 million rubles (without VAT) in each store on fixtures, lease agreements and other pre-opening costs. The Company opens its stores both in small and big cities of Russia concentrating on cities with more than 100,000 population.

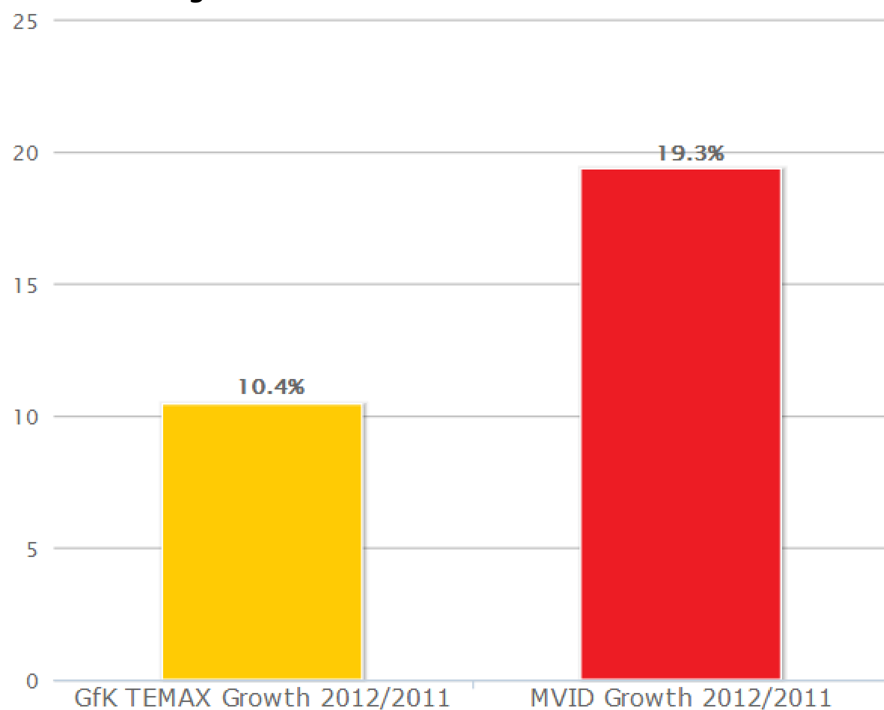
In 2011 we piloted a new format of 1,000 square meters: by the year end of 2012 M.video had eighteen of 1,000 sq. m stores under its banner in small cities and high density areas. Reduced selling space allows us to use the same metrics which we apply to a standard 2,000 sq. m store but having advantages on the capital expenditure side. We offer just the core range of main categories in these stores but the full range of promo products and extended metrics available by order, including online ordering. With our 1,000 sq. m stores we also put pressure on the competitors in smaller cities where they have good sales because we are not present. The net benefits of the new format introduction are to be more scrutinized but we're enthusiastic on the potential synergies this approach brings to our Omni-Channel strategy.

Market, competition and gross margin development

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 demonstrate high growth rates in sales due to our superior sales technologies and high standard of customer service.

With a growth of 19.3% versus a market development of 10.4% (GfK source) in 2012 M.video proved its leadership both in the Consumer Electronics Specialists, CES (nationwide federal chains) area as well as in the total Consumer Electronics market. Since 2009 crisis we constantly outperformed the other consumer electronics retailers in terms of sales growth.

M.video sales growth vs. market in 2012.



Source: GfK Source, Company data

2012 was again the year of the undisputable market leadership over major product categories for M.video, with a total market share of 13% in the Consumer Electronics market in Russia and with 25% in the CES segment (company estimate).

We reinstated a dominant position in Plasma/Flat TVs, Washing Machines and Coffee Preparation businesses and remarkably increased our share of the total market in Cooling, Mobile Computing and DSLR cameras.

One of our key success factors in 2012 were the numerous exclusive launches in the technologically advanced categories. M.video paved the road for the most popular novelties into the Russian market, such as pioneering Samsung 75-inch LED TV, newest Window 8 smartphones and tablets, premium Canon EOS6D DSLR camera, Asus first touchscreen laptop, Margherita Hot Point Ariston washing machine etc.

Once again for the third consecutive year M.video improved its Gross Margin. Amongst the main factors contributed to that we should mention the Company's focus on exclusive brands/launches and differentiated assortment, various category management initiatives led to increase of the Average Basket, as well as widely adopted Stock/Account Payables Balance ratio. We've been concluding agreements with our top suppliers to secure Working Capital parity through the full implementation of the new Assortment Management & Replenishment System and the special procurement schemes implemented for the high season. In 2012 we also managed to decrease further the age of our inventory by reducing the amount stock older than 4 months.

Supply Chain development

We manage an inventory of approximately 20,000 items comprising 6,000 core products, 6,000 accessories and 8,000 media and entertainment products. Within our uniform store concept, we can vary the sales area for different product groups according to local customer needs. The Company's goal is to ensure products availability on the store shelves with consideration for local customers' demands in the regions and to provide the clients with different additional services like order and delivery for customers' comfort and convenience.

Our Supply Chain is built around one-level distribution model: all purchases are done through three Central Distribution Centers (CDC), afterwards the products are allocated to M.video stores and to 52 regional delivery platforms. We support widest assortment on the CDC level to secure online sales and prepaid orders of any store, if the product is not available on the shelf.

M.video's Supply Chain strategy is focused on a proper inventory management (i.e. on managing the costs of the products' storage and delivery) and customers service. As it has already been mentioned all products are concentrated in 3 CDCs (2 in Moscow, 1 in Nizhniy Novgorod) in a close proximity to the «gravity center» of our sales volume. Overall number of warehouses normally remains the same however the additional space allows us to have the economy of scale in our operations.

We fulfill transportation of products throughout the network by different ways (trucks, railway, air and currier express delivery) aimed to minimize 'the last mile' (i.e. to decrease a time consumed by the home delivery). Purchases are made either in a store or online and the delivery is provided anywhere on request.

In 2012 we successfully completed 4-years long Supply Chain Management Project. This strategic effort fully transformed core operations in the area of Supply Chain and Category management: from Purchasing and Warehouse operations to Transportation Management,

from Sales Forecasting to Assortment Management and Stock Replenishment. In course of the project implementation M.video created eight category-aligned Business Groups responsible for overall performance of categories.

To deliver this significant end-to-end process change we used new IT toolset based on SAP ERP Logistics capabilities, Predictix Forecasting & Planning engine and Galeria Behavioural Clustering tool.

The SCM project resulted in improved stock availability in store and warehouse, better management of stock rotation and healthier stock age, as well as minimization of storage and delivery costs as compared to the previous years. We managed to reduce the surplus stock, the out-of-stock and the safety stock and speed up the new assortment availability on the shelves.

In 2012 we also achieved a good progress in development of the new store operational system to enable lean and efficient processes (Front Office – Back Office, FOBO project). We expect to pilot the project on the store level in 2013.

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 customer offering is supported by a 24-hour call centre, which has been outsourced from a professional company since 2012. Whether a product has been bought from M.video or not, our consultants and technicians can assist consumers with advice on topics ranging from the location and openings times of our stores to how to operate and install products.

In 2012 we continued to deliver on further development of our "My Client – My Responsibility" (MCMR) strategy and opened dedicated Service Zones in all of our stores. Through professional diagnostics run by SZ specialists the number of product returns decreased by 14% versus the previous year. The initiative also led to further reduction of customers' claims by 43%, while the sales of services (such as product check, software installation etc.) grew by 33%.

The Service Zones helped customers who want to understand how to use their purchase and for those who would like to upgrade software or move their personal data from one device to the new one they acquired. Our store directors and sales staff were taking accountability and treating customers as they expect to be treated following the Company's widely promoted motto "We do care".

We also implemented Connectivity Zones in over 50 stores with expertly trained colleagues to support and educate customers on how various digital products interconnect making life easier for the consumer.

Our customers' loyalty program is called M.video Bonus and it has been built on the basis of the innovative Oracle Siebel loyalty management CRM-solution.

In 2012 we implemented the SAP CRM tool to manage promo campaigns within M.video Bonus framework more efficiently. During the year the number of the registered participants of M.video Bonus program significantly increased by 2 million and reached 7 million customers. Moreover each second purchase in our network was made by the program's participants and the average check of M.video Bonus members went up 1.5 times to 7,900 RUB versus the average of 5,300 RUB.

In 2012 we continued to cooperate with Russian largest retail banks under co-branding initiative (Alfa Bank, Cetelem) as well as airlines, retail chains etc. to provide our customers with additional purchase bonuses both in M.video and in the other member shops.

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 Corporate university helps us to develop our future store directors and section managers.

After our people, the 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, Respect for Others, Open Mind for Change and Concern. We succeed because our staff share these values and focus 100% on our customers.

Online Business Development

M.video online business remains one of the key growth area. Internet sales continued to gain a bigger share in total sales (3%) growing noticeably (56%) in 2012. If we look at the internet as "only Moscow" then the numbers are more impressive as Internet was greater than 12% of all Moscow revenues.

We benchmark ourselves versus the online stores with the similar product mix as well as versus the major Russian search engine called Yandex Market which provides products' price and availability comparison in the Russian Internet. We see our competitive advantage in promoting our recognized brand and keeping the customers informed about our promo activities, special prices and exclusive models.

In 2012 under the banner of the Omni-Channel strategy we started to roll out our internet into the regions of Russia and opened 16 new cities for M.video online operations. Omni-Channel provides a unique opportunity for all customers to receive the same service level whatever way

– on-line, store or call-center – they choose to shop. We are one brand name – M.video - to serve our customers' demand.

Internet channel development remained one of the key priorities for the management team in 2012. The Company believes that the combination of stores and internet with the same products and same pricing, which is competitive with the other internet stores pricing, is the right solution for the Russian customer. The focus is then on convenience for shopping.

We worked constantly throughout 2012 on improving a usability of our web system including PC, tablet and mobile applications to attain better conversion rates while shifting toward personalized offers and superior customer communication via e-mails, sms and social media. The growth of our internet traffic and number of transactions was well supported by the existing Supply Chain capabilities to handle hundred thousand orders and accurate home delivery.

Further development of our e-commerce, introduction of "sales on sample" service and pick-up have been considerably increasing the Company's presence in the channel. We also implemented a geo-clustering scheme in the stores of Moscow and Nizhniy Novgorod in 2012 by that giving the customers a convenient and individual sales approach in their preferred location.

Corporate Social Responsibility

As we are the largest Russian retail chain in the consumer electronics and home appliances market by revenue, we realize that the products we sell make people's life more comfortable but may have an unpredictable impact on the environment.

Although our corporate colors are red and white, we are essentially 'green' company and carefully assess the impact we have on the environment. M.video has 17,000+ employees with their own interests, attitude and outlook on life, but we all have one thing in common – we dream and we want to make this world a better place.

2012 was a very encouraging year for our corporate social responsibility. Our environmental initiatives were well accepted in course of three summer expeditions to the world-known wildlife reserves of Russia – Olkhon Island at Baikal Lake, Altai Mountains and Kamchatka region; our employees and volunteers made clean-ups of the polluted areas in the reservations as well as organized eco-activities during their trips.

As we have always being promotive of the healthy life style we started to promote bike-rides and build dedicated bike parking in the regions where we operate.

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

Federation. By the end of 2012 we founded another charity establishment called "Beautiful Children in the Beautiful World" which will provide support to the ill children in hospitals.

M.video once became the first nationwide retail chain which stopped sales of the luminescent lamps which may be replaced with the new high-quality energy-saving lamps and which stopped sales of CRT TV sets. We hold various campaigns encouraging our customers to trade-up and replace their old fashioned home appliances with the new energy-saving models.

Outlook

We will continue to provide innovative products to our customers in all our locations and in the Internet to ensure that they continue believe that M.video is the best place where people and consumer electronics meet.

Our customer centric approach will continue to be the major priority for our management and staff designing more sophisticated service propositions and ensuring the customer is at heart of all our decisions.

We target to open 35 new stores in 2012 and to roll out our internet to another 20 new cities of Russia.

The key challenges for 2013 for M.video will be in implementing further the Omni-Channel strategic initiative. We aim to focus on improving the efficiency of our operations and superior cost control as well as extending the availability of the products' assortment for our customers in all channels, including stores and virtual online shelf. We are also committed to secure advantages of the price match guarantee versus the competition on the basis of strong supplier's relationship and ongoing collaboration with the manufacturers.

The Company is preparing to launch a new channel-integrated solution based on Oracle ATG web platform and SAP CRM capabilities in the coming years. The start of this program is expected in 2013 with early benefits planned for 2014 and a full completion in 2015. The brand new web platform will allow M.video to improve customer's familiarity with our web sites, optimize search and browse capabilities and by the end of the day provide Russian consumers with the advanced digital tool integrating web and store shopping experience.

Financial Performance Review.

Financial performance highlights in 2010-2012.

RUB million (without VAT)	**2012**	**2011**	**2010**
Net revenue	133,593	111,937	86,565
Gross profit*	32,955	27,537	21,348
As % of net revenue	*24.67%*	*24.60%*	*24.66%*
Operating expenses*	27,583	22,936	18,114
As % of net revenue	*20.65%*	*20.49%*	*20.93%*
Operating profit (EBIT)	5,372	4,601	3,234
As % of net revenue	*4.02%*	*4.11%*	*3.74%*
EBITDA	7,525	6,239	4,523
As % of net revenue	*5.63%*	*5.57%*	*5.22%*
Net profit	4,141	3,374	2,221
As % of net revenue	*3.10%*	*3.01%*	*2.57%*

*in 2012 the Company changed presentation of certain expenses as against the year 2011 resulted in reclassification of the stock replenishment expenses (the cost of transporting of the goods from the Company's warehouses to the stores) from SG&A to Cost of Sales and the commissions paid for gist cards distribution from Cost of Sales to SG&A. Corresponding reclassifications have been made to the amounts of Cost of Sales and SG&A previously reported for 2011 and 2010.

Revenues

Our overall net revenue growth was 19.3% to 133.6 billion RUB in 2012. This was due to both new stores openings and the increase in the like-for-like sales by 9.3%.

Our new stores openings comprised of 44 new stores opened in 2011, 42 new stores opened in 2012, and 16 internet cites commenced their operations in addition to Moscow internet store – all contributing to the positive revenue generation in 2012.

Gross profit

As a percentage of revenue, gross margin grew by 0.7% to 24.67%, or 33 billion RUB. It should be noted that in 2012 the Company changed the presentation of the transportation expenses to the stores. In prior years these expenses were treated as SG&A items, but in 2012 we started to treat them as Cost of Sales as they became material and satisfy the criteria of getting the product to the point of sale. Therefore the amount of gross profit for 2011 adjusted accordingly was 27.5 billion RUB or 24.6%.

The growth in gross margin happened primarily due to improvements in the cost processes, i.e. cost of sales and replenishment. Despite competition and the market pricing putting downward pressure on the GM, the Company enjoyed being active partner of its suppliers and being able to counterfight the effects of these reductions. In particular, we continued involving our suppliers in the promo campaigns which allowed us to minimize negative effects from promo on the GM result. The Company also focused on getting better GM on products as it helped the

suppliers to obtain market share through the Company's regional network. Our suppliers do not pay for transport but negotiate on the margin.

Furthermore the replenishment again has undergone some optimization, mostly in the form of higher truck utilization and changes in replenishment schedules. These improvements were achieved through the investment in our IT system in course of the Supply Chain Management development.

Selling, general and administrative expenses

Our selling, general and administrative expenses (SG&A) increased by 20.5% to 29.4 billion RUB in 2012 from 24.4 billion RUB in 2011. As a percentage of revenue the expenses increased by 0.2% from 21.8% in 2011 to 22.0% in 2012.

Overall SG&A increase was mainly from Payroll, Lease expenses and Depreciation & Amortization, having been offset to some extent by Advertising expenses and Other SG&A.

Selling, general and administrative expenses in 2011-2012, RUB million and as % of net revenue

	Year ended			
	31 December 2012		**31 December 2011**	
Payroll and related taxes	8,742	*6.54%*	7,112	*6.35%*
Lease expense	6,480	*4.85%*	5,327	*4.76%*
Advertising and promotional expenses	3,665	*2.74%*	3,289	*2.94%*
Transportation	754	*0.56%*	598	*0.53%*
Warehouse services	1,757	*1.32%*	1,508	*1.35%*
Utilities	1,331	*1.00%*	1070	*0.96%*
Depreciation & amortization	2,153	*1.61%*	1,638	*1.46%*
Other SG&A*	4,494	*3.36%*	3,841	*3.43%*
Total	**29,376**	***21.99%***	**24,383**	***21.78%***

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

The increase in Payroll and related taxes amounted 0.19% of revenues. Due to growing complexity of the internal business processes and growth of the network itself, the Company had to increase the headcount in the HQ. Despite such an increase was not significant, it led to relatively bigger addition in the overall amount of Social taxes because of the progressive tax increase, as far as the highest wage earners reside in the HQ. As for the stores salaries, the Company strives to keep efficiency per FTE by putting sales staff salary growth versus the L4L sales increases, what however can be challenged by additional payments to personnel during the periods of closing stores for reconstruction.

Lease expenses were up by 0.09% of revenue. The higher L4L sales in our stores in 2012 as compared to 2011 made the fixed rents higher as a percentage. In addition we negotiated renewals of some of our old leases at higher rates due to inflation. It's still being justified by the

revenue growth as internally we manage the rental costs on a store by store basis as a percentage of revenue.

Advertising and promotional expenses decreased by 0.2% to 2.7% of total revenue in 2012. The Company enjoyed relatively low inflation for TV advertising while the significant funds were spent on internet advertising and brand imaging. The traditional spending on leaflets and billboards grew to a less extent than in the previous years.

After the reclassification of the expenses related to transporting stock from the warehouses to the stores, Transportation expenses in SG&A now represent only deliveries to clients. Accordingly Transportation expense increases are tied-in to the growth of our Internet sales which are almost 100% delivery.

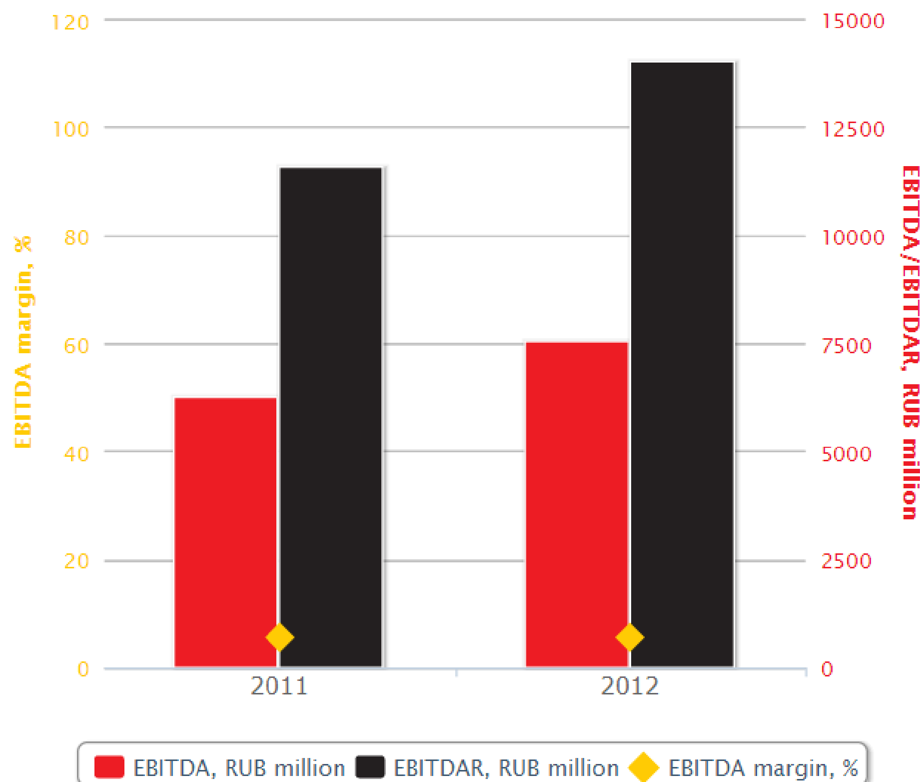
Warehouse expenses were positively flat. Minor decrease in their share of revenue by 0.03% to 1.32% in 2012 resulted from the Company's efforts to optimize stock storage process and to keep storage tariffs under control.

Utilities expenses went up a little bit by 0.04% to 1% of revenue in 2012, reflecting both increase in utilization and smaller LFL sales in 2012 versus 2011.

Other operating income and expenses

Other operating income (net of expenses) increased by 24% from 1,447 million RUB in 2011 to 1,793 million RUB in 2012. The other operating income mostly consists of Consumer Credit commissions, Delivery income and Advertising income. We do not recover 100% of the delivery cost but as sales increase, but particularly in the internet we see noticeable increases in the delivery income.

EBITDA/EBITDAR dynamics in 2011-2012.



Operating profit

Operating profit increased by 17% from 4.6 billion RUB in 2011 to 5.4 billion RUB in 2012.

Net finance income

The Group had a net finance gain in both 2012 and 2011, 182 million RUB and 37 million RUB respectively. During these years M.video did not have loans denominated in foreign currencies and used only short-term borrowings for new stores openings that allowed us to end the years in a net interest earned position.

Income tax expense

The effective income tax rate for 2012 was 25% compared to 27% in 2011. The reduction in effective tax rate was achieved through control of non-deductible expenses while EBIT (earnings before income tax) increased by 17% in 2012. This was primarily due to continuing improvement in our Supply Chain, marketing and expansion processes which allow us to manage deviations from tax efficiencies.

Net profit for the year

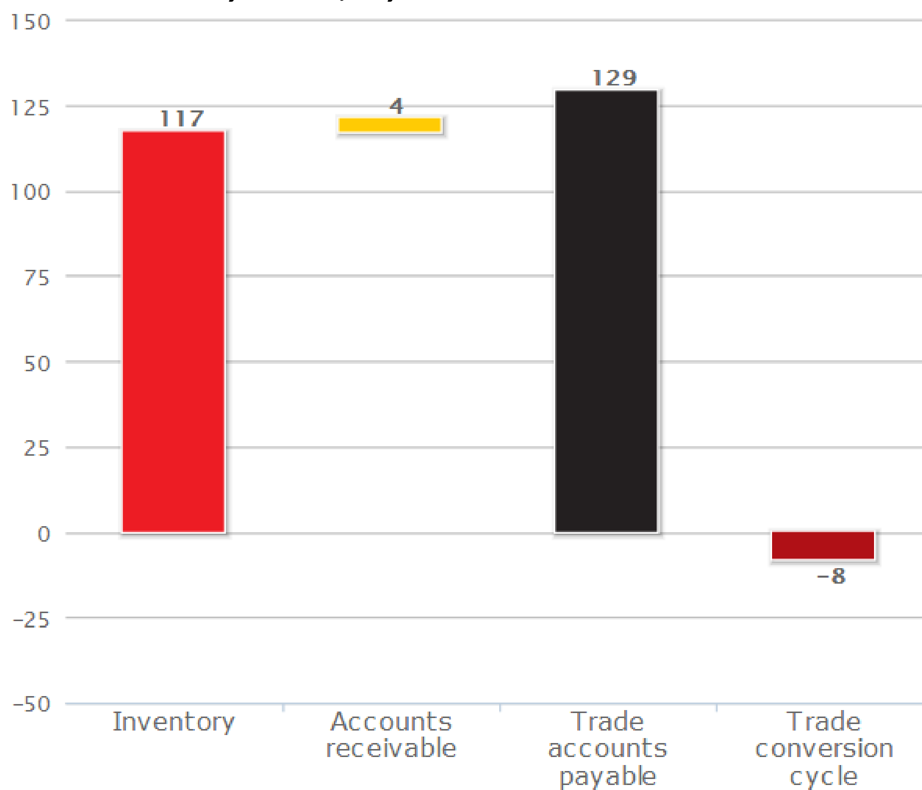
Net profit for the year increased by 23% from 3.4 billion RUB in 2011 to 4.1 billion RUB in 2012.

Assets and liabilities

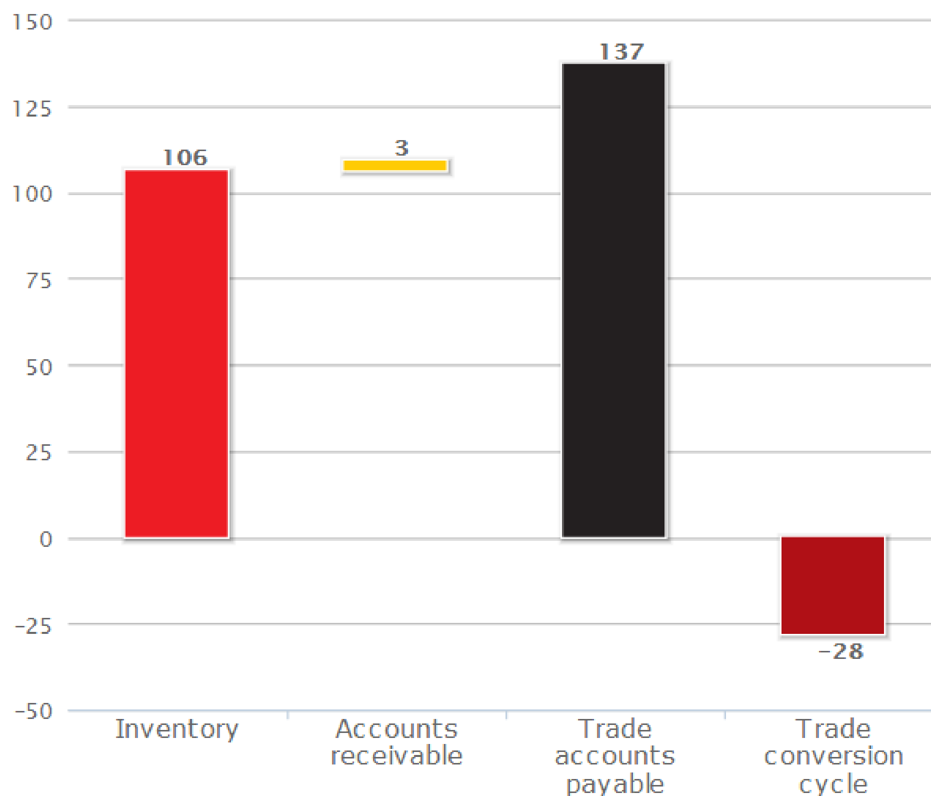
Like in the previous years, in 2012 M.video had a very clean and easy to understand balance sheet with Fixed Assets, Inventories, Cash and Trade Accounts Payables being the only large items. Managing the level of our Working Capital continued to be one of the main focuses of the top managers.

Dealing with the vendors we continued to use Stock/Account Payables parity principle which had been introduced in 2009. This gives us financial strength by having sufficient cash balances and net income from financing instruments.

Trade Conversion Cycle 2012, days.



Picture. Trade Conversion Cycle 2011, days.



Cash flows

Cash flow from operations

In 2012 the Company had 3,6 billion RUB as a net increase in cash from operations, compared to 10.2 billion RUB in 2011.

The operating cash flows before movement in working capital increased by 40%, or by 2.5 billion RUB from 6.4 billion RUB in 2011 to 8.8 billion RUB in 2012.

The effect of movements in working capital was negative in 2012 and amounted to 5.2 billion RUB. It happened as a result of reversal of 2011 working capital source of cash. As it was already mentioned above we are committed to operate with our suppliers by maintaining parity of Inventories and Accounts Payable. However unexpectedly high sales in December 2011 gave significantly lower than expected Inventories and a mismatch of this principle as at the end of 2011was adjusted further in 2012.

Cash flow from investing activities

In 2012 M.video invested almost 4 billion RUB in CAPEX programs or 488 million RUB more as compared to 2011. As in the previous year the investment in opening new stores and our Supply Chain systems dominated the investments.

Cash flow from financing activities

In 2012 the net cash used in financing activities represented the dividends paid in the total amount of 6.3 billion RUB versus 691 million RUB in 2011. The 2012 amount comprised of annual dividends in respect of 2011 in the amount of 1.0 billion RUB, and special dividends in respect of 9 months of 2012 in the amount of 5,3 billion RUB.

Net cash

The Group decreased its net cash balance by 6.7 billion RUB from 13.2 billion RUB in 2011 to 7.5 billion RUB in 2012. It was intentional and managed reduction of extra cash as a result of paying out special dividend and setting the WC right in line to what is used by the Company in the normal course of business.

Board of Directors

Peter Gyoerffy
Independent Board Member, Chairman of the Board
Peter Gyoerffy was born in 1959. In 1985 he graduated from University of Economics (Austria) with a Master's degree and worked many years for Mars Inc. and later as the CEO of Merkur superstores in Austria (Rewe-group). Since March 2007 Mr. Gyoerffy is an independent member and Chairman of the M.video Board. Mr. Gyoerffy owns and operates an independent firm specializing in international strategy consulting for retailers. He also is a member of the Board of the Austrian Kika/Leiner furniture group.

Pavel Breev
Board Member, General Director
Pavel Breev was born on 22 April 1967г. In 1986 he graduated from Moscow Aviation Engine College. Pavel Breev is a founder of M.video Group and has held various positions in management since 1996. He serves as a member of the Board of Directors and as the general director of OJSC "Company M.video" from the date of its incorporation in September 2006.

David Hamid
Independent Board Member
David Hamid was born on 11 December 1951. In 1973 he graduated from University of Bradford (UK). Mr. Hamid has served as an independent member of the Board of Directors of OJSC "Company M.video" since February 2007. Mr. Hamid has served as a non-executive director at Homeserve Warranties since 2006 and as the chairman of the Supervisory Board at Music for Youth since 2008.

Stuart Leighton
Independent Board Member
Stuart Leighton was born on 17 June 1968. In 1989 he graduated from Napier Polytechnic (UK), BA Accounting. In 2004 – 2006 Mr. Leighton was a partner at Deloitte & Touche CIS. Presently he is a Director of Wealden Partners Ltd. Mr. Leighton is a member of the Institute of Charted Accountants in England and Wales. Mr. Leighton served as an independent member of the Board of Directors of OJSC "Company M.video" in 2007-2011.

Alexander Tynkovan
CEO/President
Alexander Tynkovan was born on 14 June 1967. In 1992 he graduated from Moscow Energy Institute. He founded M.video in 1993 and has remained in management till present time.

Mikhail Kuchment

Independent Board Member

Mikhail Kuchment was born on 28 August 1973. In 1996 he graduated from Moscow Institute of Physics and Technology (MIPT). In 2004 - 2005 he was a marketing director of M.video Group, then in 2005 - 2008 he was a commercial director of the Company. Presently he is a Vice-President of LLC “Home Interior”.

Utho Creusen

Independent Board Member

Utho Creusen was born on 24 April 1956. In 1979 he graduated from the University of Cologne (Germany). In 2001 – 2008 he was a member of the Board of Media-Saturn-Holding. Since February 2010 he is a non-executive member of the Board of Directors of DSG International.

Alexander Prisyazhnuk

Independent Board Member

Alexander Prisyaznuk was born on 23 May 1972. In 1995 he graduated from Kuban State University. Mr. Prisyazhnuk has held various positions and served as the member of the Board of Directors of the Group of Companies “Magnit” and its predecessor entities since 1997 till the end of 2008.
He has been serving as the member of the Board of Directors of OJSC “DIXI Group” since 2010.

Walter Koch

Independent Board Member

Walter Koch was born in 1962. He graduated from University for the Applied Sciences (Aalen, Germany) in 1988. For almost two decades he obtained senior positions with the largest European home appliances manufacturers such as AEG and Electrolux, being in charge of the logistics and Supply Chain management. In 2007-2010 Mr. Koch served as Executive Vice-President and COO of Sanitec Corporation (Helsinki, Finland). Presently Mr. Koch owns and operates independent consulting firm.

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, seven 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 2012 the Board of Directors was chaired by Peter Györffy, an independent director.

At this date other Board members included: Mr Alexander Tynkovan, our founder and CEO, Mr Pavel Breev, our co-founder and Expansion Director, and independent directors Mr Utho Creusen, Mr David Hamid, Mr Walter Koch, Mr Michael Kuchment, Mr Stuart Leighton and Mr Alexander Prisyazhnuk.

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

Management

Name	Position
Alexander Tynkovan	CEO and President

Name	Position
Pavel Breev	Expansion Director

Name	Position
Enrique Fernandez	Commercial Director

Name	Position
Stephen Lewis	Retail Director

Name	Position
Christopher Parks	Chief Financial Officer

Christopher Mangham IT Director

Irina Ivanova Supply Chain Director

Natalya Maleeva HR Director

Konstantin Nechaev Project Director

Corporate Governance

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

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

Audit Committee Report

Membership and Meetings

The Audit Committee comprised of Stuart Leighton (Chairman) and David Hamid. Stuart Leighton and David Hamid are both independent non-executive directors. The Chairman has recent and relevant experience.

The committee met 6 times during 2012. The members of the audit committee attended all meetings. Representatives of the external auditors, the CFO and Head of Internal Audit were invited to attend each meeting to ensure that the Committee members were fully informed and supported in carrying out their duties. During the year the members of the committee met with the external auditors in private.

Role of the Committee

The Board has delegated the Audit Committee responsibility to review and monitor the integrity of the financial reporting and any formal announcements relating to the Group's financial performance; review critical accounting policies and financial reporting judgements; review the Group's internal control systems; monitor the effectiveness of the Group's internal audit function, reviewing and approving their annual plan; complete an annual assessment of external auditors, review and monitor their independence, approve the external auditors' remuneration and terms of engagement and make recommendations in respect of the reappointment. The full terms of the Audit Committee are available on the corporate website.

Key Matters Considered

The key matters considered by the Committee during the year included: interim, half-yearly and annual financial statements; recommendations from the external auditors on accounting, tax

and internal control issues (and managements responses to these recommendations); reviewed the level of resources and training allocated to the internal audit department to ensure the audit plan could be delivered effectively (as part of this review additional senior resources will be added); assess reports and updates on the key findings from internal audit; reviewed with management and the external auditor the deadline for IFRS reporting and supported the continued improvement on the timeliness of the annual reporting; carried out an assessment of the audit committee and followed up on recommendations made during this assessment.

Stuart Leighton,
Chairman of the Audit Committee

Remuneration and Nomination Committee Report

In 2012 the Remuneration & Nomination Committee consisted of three members, David Hamid and Peter Györffy for the whole year, Utho Creusen (1st half 2012) and Walter Koch (2nd half 2012). All members were independent Non-Executive Directors.

Alexander Tynkovan in his role as the CEO took part as a guest and Natalia Maleeva, HR Director wrote the minutes as the Committees' Secretary.

Over the reporting period five committee meeting took place and a detailed debrief was always given during the Board-meetings. Full presence of all members during all meetings was given.

The Committee focused in 2012 on the following topics:

- Regular reviews of the HR Key Performance Indicators (KPIs) with special focus on staff turnover-reduction in the stores and head-count control.

- Organizational implications of the Omni-strategy covering structure, distribution of responsibilities and identification of qualified jobholders. Especially the external, international search for a strategic Omni-expert turned out to be very difficult, as candidates who fulfilled the right profile have been a rare "species".

- Update of the internal compliance rules and its communication to the employees.

- Remuneration structure for the top-management in order to ensure attractive pay considering the market level. Under this subject the committee reviewed achievement of the top-level KPIs in 2012 and the extraordinary performance as well as approved challenging top-level KPI-targets for 2013.

- Existing Managements' Long Term Incentive Program (LTIP) in order to retain executives has been reviewed and prolonged.

- Succession planning: special processes have been approved for identification of high potentials on second management level in order to be developed as potential successors for current executives.

All recommendations of the Remuneration & Nomination Committee have been unanimously approved by the Board of Directors.

Peter Györffy
Chairman of the Remuneration & Nomination Committee.

Shareholder information

In the Russian Federation our shares are traded on the Russian MICEX-RTS Exchange 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 31.12.2012	RUB 242.97
High/Low 2012	RUB 289.50/RUB 183.00
Market Capitalisation	RUB 43.7 billion as of December 31, 2012
Shares outstanding	179,768,227
Free float	42.3%

Registrar Information

OJSC “Registrator R.O.S.T.”

Address: 18 (box 9), Stromynka street, 107996, Moscow, Russia
Telephones: tel. (495) 771-73-35, fax (495) 771-73-34
Web: www.rrost.com
E-mail: rost@rrost.ru

Contacts

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Moscow, 107066, Russia

Tel + 7 495 644 2848 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

Open Joint Stock Company
"Company M.video"

Consolidated Financial Statements
For the Year Ended 31 December 2012

OPEN JOINT STOCK COMPANY “COMPANY M.VIDEO”

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OPEN JOINT STOCK COMPANY “COMPANY M.VIDEO”

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of OJSC “Company M.video” (the “Company”) and its subsidiaries (the “Group”) as of 31 December 2012, and the results of its operations, cash flows and changes in shareholders’ equity for the year then ended, in compliance with International Financial Reporting Standards (“IFRS”).

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2012 were approved on 25 March 2013 on behalf of the Board of Directors by:

A. Tynkovan
President

C. Parks
Chief Financial Officer

Deloitte.

ZAO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047
Russia

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Open Joint Stock Company "Company M.video"

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Company M.video" and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for 2012, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 express an opinion on the fair presentation of these consolidated financial statements.

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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 2012, and its consolidated financial performance and its consolidated results of cash flows for 2012 in accordance with International Financial Reporting Standards.

DELOITTE & TOUCHE

25 March 2013
Moscow, Russian Federation

Andrei Sedov, Partner
(certificate no. 01-000487 dated 13 February 2012)

ZAO Deloitte & Touche CIS

The Entity: OJSC “Company M.video”

Certificate of state registration № 77 №008748648 of 25.09.2006, issued by Interdistrict Inspectorate of the Russian Ministry of Taxation № 46.

Address: 40/12, building 20, Nizhnaya Krasnoselskaya Street, Moscow, 105066, Russian Federation

Independent Auditor: ZAO “Deloitte & Touche CIS”

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Certificate of registration in the Unified State Register № 1027700425444 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of membership in «NP «Audit Chamber of Russia» (auditors’ SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

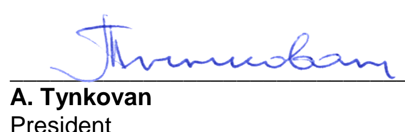
OPEN JOINT STOCK COMPANY "COMPANY M.VIDEO"

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012
(in millions of Russian Rubles)

	Notes	31 December 2012	31 December 2011
NON-CURRENT ASSETS:			
Property, plant and equipment	6	9,645	8,920
Intangible assets	7	2,092	1,261
Advances paid for non-current assets		79	98
Deferred tax assets	16	2,210	1,666
Other non-current assets	8	575	594
Total non-current assets		**14,601**	**12,539**
CURRENT ASSETS:			
Inventories	9	32,259	24,487
Accounts receivable and prepaid expenses	10	1,557	1,246
Income tax receivable		16	412
Other taxes receivable	11	1,931	1,239
Cash and cash equivalents	12	6,521	13,220
Short-term investments	13	981	-
Other current assets	14	79	204
Total current assets		**43,344**	**40,808**
TOTAL ASSETS		**57,945**	**53,347**
EQUITY:			
Share capital	15	1,798	1,798
Additional paid-in capital	15	4,576	4,576
Treasury shares	15	(588)	(588)
Retained earnings		4,906	7,041
Total equity		**10,692**	**12,827**
NON-CURRENT LIABILITIES:			
Deferred tax liabilities	16	180	317
Provisions	22	28	100
Total non-current liabilities		**208**	**417**
CURRENT LIABILITIES:			
Trade accounts payable	17	35,586	32,673
Other payables and accrued expenses	18	3,690	2,354
Advances received	19	987	802
Income tax payable		993	908
Other taxes payable	20	907	529
Deferred revenue	21	4,687	2,555
Provisions	22	195	282
Total current liabilities		**47,045**	**40,103**
Total liabilities		**47,253**	**40,520**
TOTAL EQUITY AND LIABILITIES		**57,945**	**53,347**

The Notes on pages 8 to 49 form an integral part of these consolidated financial statements. The independent auditor's report is presented on pages 2 to 3.

Signed on behalf of the Board of Directors on the 25 March 2013.



A. Tynkovan
President

C. Parks
Chief Financial Officer

OPEN JOINT STOCK COMPANY “COMPANY M.VIDEO”

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012
(in millions of Russian Rubles, except earnings per share)

	Notes	2012	2011
REVENUE	23	133,593	111,937
COST OF SALES	24	(100,638)	(84,400)
GROSS PROFIT		32,955	27,537
Selling, general and administrative expenses	2,25	(29,376)	(24,383)
Other operating income	2,26	1,925	1,549
Other operating expenses	27	(132)	(102)
OPERATING PROFIT		5,372	4,601
Finance income, net	28	182	37
PROFIT BEFORE INCOME TAX EXPENSE		5,554	4,638
Income tax expense	16	(1,413)	(1,264)
NET PROFIT for the year, being TOTAL COMPREHENSIVE INCOME for the year		**4,141**	**3,374**
BASIC EARNINGS PER SHARE (in Russian Rubles)	29	23.39	19.05
DILUTED EARNINGS PER SHARE (in Russian Rubles)	29	23.04	18.77

The Notes on pages 8 to 49 form an integral part of these consolidated financial statements. The independent auditor’s report is presented on pages 2 to 3.

Signed on behalf of the Board of Directors on the 25 March 2013.

A. Tynkovan
President

C. Parks
Chief Financial Officer

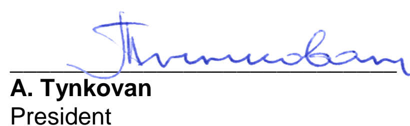
OPEN JOINT STOCK COMPANY “COMPANY M.VIDEO”

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012
(In millions of Russian Rubles)

	Notes	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Total
Balance as at 31 December 2010		**1,798**	**4,576**	**(588)**	**4,279**	**10,065**
Recognition of share-based payment for ordinary shares previously issued	30	-	-	-	79	**79**
Dividends declared	15	-	-	-	(691)	**(691)**
Total comprehensive income for the year		-	-	-	3,374	**3,374**
Balance as at 31 December 2011		**1,798**	**4,576**	**(588)**	**7,041**	**12,827**
Recognition of share-based payment for ordinary shares previously issued	30	-	-	-	72	**72**
Dividends declared	15	-	-	-	(6,348)	**(6,348)**
Total comprehensive income for the year		-	-	-	4,141	**4,141**
Balance as at 31 December 2012		**1,798**	**4,576**	**(588)**	**4,906**	**10,692**

The Notes on pages 8 to 49 form an integral part of these consolidated financial statements. The independent auditor’s report is presented on pages 2 to 3.

Signed on behalf of the Board of Directors on the 25 March 2013.



A. Tynkovan
President

C. Parks
Chief Financial Officer

OPEN JOINT STOCK COMPANY "COMPANY M.VIDEO"

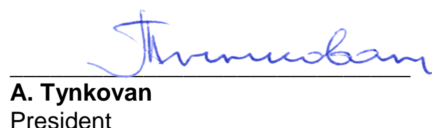
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012
(In millions of Russian Rubles)

	Note	2012	2011
OPERATING ACTIVITIES:			
Total comprehensive income for the year		4,141	3,374
Adjustments for:			
Income tax expense	16	1,413	1,264
Depreciation and amortization	25	2,153	1,638
Change in allowance for doubtful accounts receivable and prepaid expenses	8,10	(56)	42
Share-based payment	30	72	79
Change in allowance for obsolete and slow-moving inventories and inventory losses, net of surpluses	24	702	(237)
Other non-cash reconciling items		556	303
Operating cash flows before movements in working capital		**8,981**	**6,463**
Increase in inventories		(8,502)	(3,499)
Increase in accounts receivable and prepaid expenses	2	(255)	(159)
Increase in other taxes receivable		(640)	(10)
Increase in trade accounts payable		2,913	7,636
Increase in other payables and accrued expenses		375	342
Increase in deferred revenue		2,132	870
Increase/(decrease) in advances received		185	(91)
Other changes in working capital, net	2	323	213
Cash generated by operations		**5,512**	**11,765**
Income taxes paid		(1,613)	(1,502)
Interest paid		(113)	(37)
Forward contracts settlement		(167)	(16)
Net cash generated by operating activities		**3,619**	**10,210**
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment		(2,523)	(3,000)
Short-term investments with banks		(981)	-
Purchase of intangible assets		(756)	(567)
Interest received		290	85
Net cash used in investing activities		**(3,970)**	**(3,482)**
FINANCING ACTIVITIES:			
Dividends paid		(6,348)	(691)
Proceeds from short-term loans and borrowings		11,987	6,386
Repayment of short-term loans and borrowings		(11,987)	(6,386)
Net cash used in financing activities		**(6,348)**	**(691)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(6,699)**	**6,037**
CASH AND CASH EQUIVALENTS, at the beginning of the year		**13,220**	**7,183**
CASH AND CASH EQUIVALENTS, at the end of the year		**6,521**	**13,220**

Refer to Notes 6, 7, 8, 10, 16, 18 and 22 for details of non-cash transactions.

The Notes on pages 8 to 49 form an integral part of these consolidated financial statements. The independent auditor's report is presented on pages 2 to 3.

Signed on behalf of the Board of Directors on the 25 March 2013.



A. Tynkovan
President

C. Parks
Chief Financial Officer

1. GENERAL INFORMATION

The consolidated financial statements of OJSC "Company M.video" (the "Company") and subsidiaries (the "Group") for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Board of Directors on the 25 March 2013.

The Company and its subsidiaries (see the table below) are incorporated in the Russian Federation. The Company is registered at: 40/12, building 20, Nizhnaya Krasnoselskaya Street, Moscow, 105066, Russian Federation.

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

The Group is the operator of a chain of consumer electronic outlets and online internet 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 (296 stores as at 31 December 2012; 261 stores as at 31 December 2011) and online internet stores in Moscow and 16 other cities (one online internet store in Moscow as at 31 December 2011).

The accompanying consolidated financial statements include assets, liabilities and result of operations of the Company and its subsidiaries as at 31 December 2012 and 2011 (all of the below subsidiaries operate in the Russian Federation):

Name of subsidiary	Nature of business	Proportion of ownership interest and voting power held, % 2012	Proportion of ownership interest and voting power held, % 2011
LLC "M.video Management"	Retailing	100	100
LLC "Standard-Invest"	Real estate	-	100

In September 2012 the Company simplified the Group's structure through reorganization of some of its subsidiaries by merging LLC "Standard-Invest" into LLC "M.video Management". As the Company held 100% ownership interest in all entities both before and after the reorganization this merger did not have an impact on the consolidated financial statements of the Group.

Shareholders

As at 31 December 2012 and 2011 the registered shareholders of OJSC "Company M.video" and their respective ownership and voting interests were as follows:

	2012	2011
"Svece Limited"	57.7868%	67.7868%
"M.video Holding (Cyprus) Limited"	-	0.3344%
Various shareholders	42.2132%	31.8788%
Total	**100%**	**100%**

Ultimate Shareholders

"M.video Investment Ltd." (BVI), a company incorporated in the British Virgin Islands controls 100% of the voting and ordinary shares of "M.video Holding (Cyprus) Limited" and "Svece Limited" (a company incorporated in Cyprus), and is the ultimate parent entity of the Company. Mr. Alexander Tynkovan, a citizen of the Russian Federation, has a controlling interest in "M.video Investment Ltd." (BVI).

2. BASIS OF PREPARATION

Statement of compliance

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

Basis of Accounting

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

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

Functional and presentation currency – The consolidated financial statements are presented in Russian Rubles ("RUB"), which is the functional and presentation currency of each of the Group's companies. Functional currency for each company of the Group 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 IFRSs" – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters;
- IAS 24 "Related Party Disclosures" (Revised);
- Amendment to IAS 32 "Financial Instruments: Presentation" – Classification of Rights Issues;
- Amendment to IFRIC 14 "Prepayments of Minimum Funding Requirements";
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments";
- Improvements to IFRSs (May 2010).

The adoption of these new and revised standards and interpretations has not had an impact on consolidated financial statements of the Group for the year ended 31 December 2012.

2. BASIS OF PREPARATION (CONTINUED)

Changes in the presentation of the Group’s consolidated financial statements

In 2012 the Group has changed presentation of its consolidated financial statements with respect to classification of certain expenses in the consolidated statement of comprehensive income.

Specifically, starting 1 January 2012 the Group classifies transportation expenses associated with moving merchandise inventories from central distribution warehouses to the Group’s retail stores as part of Cost of Sales. In prior periods the Group reported these expenses within Selling, General and Administrative expenses. The Group has made this change in classification in order to enhance fair presentation of expenses incurred in getting merchandise inventories to the points of sales.

Reclassifications

In the year ended 31 December 2012 the Group changed presentation of certain items of assets and expenses as against the year ended 31 December 2011 in order to enhance fair presentation of the annual consolidated financial statements. With this regard the Group made the following reclassifications to the prior period’s amounts to conform to the presentation of the current reporting period:

	As previously reported	Reclassifi-cation	After reclassifi-cation	Comments
Consolidated Statement of Comprehensive Income for the year ended 31 December 2011				
Cost of sales	(82,670)	(1,730)	(84,400)	Reclassification of cost of transporting of the goods from the Company’s warehouses to the stores in the amount of 1,782 from “Selling, general and administrative expenses” to “Cost of sales”; reclassification of commissions paid for gift cards distribution in the amount of 52 from “Cost of sales” to “Selling, general and administrative expenses”
Selling, general and administrative expenses	(26,113)	1,730	(24,383)	
Consolidated Statement of Financial Position for the year ended 31 December 2011				
Other non-current assets	764	(170)	594	Reclassification of the short-term advances paid for rent in the amount of 170 from “Other non-current assets” to “Accounts receivable and prepaid expenses”.
Accounts receivable and prepaid expenses	1,076	170	1,246	
Consolidated Statement of Cash Flows for the year ended 31 December 2011				
Increase in accounts receivable and prepaid expenses	11	(170)	(159)	Reclassification effect of the short-term advances paid for rent from “Increase in accounts receivable and prepaid expenses” to “Other changes in working capital, net”.
Other changes in working capital, net	43	170	213	

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Based on the current management structure the Group has identified one operating segment – the sale of consumer electronics through its retail and internet stores.

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

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

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

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

Property, plant and equipment – Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Deemed cost of the items of property, plant and equipment existing as at 1 January 2006, the date of transition to IFRS, was determined on the basis of fair values estimated 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 recognized in the consolidated statement of comprehensive income during the financial period in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such item when the cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The assets being replaced are written off immediately. All other costs are recognized in the consolidated statement of comprehensive income as an expense as incurred.

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

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

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

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

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

Advance payments for construction in progress are shown separately in the consolidated statement of financial position.

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

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

Software licenses and development	1-10 years
Trademarks	5-10 years

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

Impairment of tangible and intangible assets – At each balance sheet date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largerly independent of those from other assets or group of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiplies, quoted share price for publicly traded subsidiaries or other fair value indicators.

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.

Impairment test is performed by the Group annually for those intangible assets that are not yet available for use at the year-end by comparing their carrying amount with the recoverable amount calculated as discussed above. If the carrying amount of such assets does not yet include all the cash outflows to be incurred before they are ready for use, the estimate of future cash outflow includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Current tax

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

Deferred tax

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

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

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

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

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

Current and deferred income tax for the period

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 that the Group holds on its consolidated statement of financial position at 31 December 2012 are classified into the following specified categories: financial assets as ‘at fair value through profit or loss’ (“FVTPL”) 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 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

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 losses and bad debts.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and other accounts receivable where the carrying amount is reduced through the use of an allowance account. When trade and other accounts receivable are uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statement of comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

Other financial liabilities

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

Derecognition of financial liabilities

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

Share-based payments – Equity-settled share based payments to employees are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 30.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

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

Derivative financial instruments – In course of its business the Group from time to time enters into derivative financial instruments to manage its exposure to foreign exchange rate risk mostly through 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 consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

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

Inventories – Inventories are recorded at the lower of average cost or net realizable value. In-bound freight related costs from the suppliers incurred to deliver inventories to the Group's central distribution warehouse 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 from the central distribution warehouse to the retail stores are expensed as incurred and included either in "Cost of sales" (costs of transporting merchandise from central distribution warehouses to the retail stores) or in "Selling, general and administrative expenses" (all other costs).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The Group provides for estimated inventory losses between physical inventory counts on the basis of percentages of sales. The provision is adjusted annually based on historical results to reflect the estimated trend of the actual physical inventory count results.

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

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

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

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

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

Warranties

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

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

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

Sale of goods

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group recognizes revenue for store sales when the customer receives the product and pays for the merchandise. For online sales the Group recognizes revenue at the time the customer receives the product. The recognized revenue includes credit card fees payable for the transaction. Such costs are presented in operating expenses.

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.

Revenue from services

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

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

Additional service agreements

Revenue from the sale of additional service agreements ("ASA") is recognized on an 'as earned' basis with the unearned portion (if any) spread over the remaining term of the contracts to reflect the costs the Group expects to incur in performance of its contractual obligations. Costs directly associated with the sale of ASA, such as sales bonuses paid to shop assistants, repair costs, as well as commission paid to other parties to provide full or partial coverage of the Group's obligations under existing ASA are recognized in the consolidated statement of comprehensive income on the same basis as related revenue.

The revenue is recognized in full when no further costs are expected to be incurred. Specifically, where a third party assumes substantially all of the Group's obligations under ASA for a consideration that is based on a fixed proportion of fees charged to customers, the revenue is recognized in full.

The revenue is deferred and recognized ratably over the term of the service contract when the Group has responsibility for fulfilling obligations under these contracts, in these cases the related costs are recognized as incurred.

Revenue from the sale of ASA is reported within retail revenue.

Agents

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

Gift cards

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Interest income is included in the net finance cost in the consolidated statement of comprehensive income.

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

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

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

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

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

Employee benefits – Remuneration to employees in respect of services rendered during the reporting period is recognized as an expense in that reporting period. The Group contributes to the Russian Federation state pension, medical and social insurance on behalf of all its current employees (a defined contribution plan) by paying social security contributions ("SSC"). The Group's only obligation is to pay contributions to the Fund as they fall due. As such, the Group has no legal obligation to pay and does not guarantee any future benefits to its Russian employees. Any related expenses are recognized in the consolidated statement of comprehensive income as they become due. Contribution for each employee varies from 0% to 20% depending on the annual gross remuneration of each employee. 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. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

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

4. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

The following new or revised standards and interpretations issued by IASB and IFRIC have been published at the date of authorization of the Group's consolidated financial statements for the year ended 31 December 2012, but are not yet effective:

- IFRS 9 "Financial Instruments" – Classification and Measurement; Additions to IFRS 9 for Financial Liability Accounting;
- IFRS 10 "Consolidated Financial Statements";
- IFRS 11 "Joint Arrangements";
- IFRS 12 "Disclosure of Interests in Other Entities";
- IFRS 13 "Fair Value Measurement";
- IAS 19 "Employee Benefits" (as revised in 2011);
- IAS 27 "Separate Financial Statements" (as revised in 2011);
- IAS 28 "Investments in Associates and Joint Ventures" (as revised in 2011);
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities";
- Amendments "Investment Entities" to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements (as revised in 2011)";
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" for Government Grants;
- Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income;
- Amendments "Offsetting of Financial assets and Financial Liabilities" to IAS 32 "Financial instruments: Presentation" and amendments "Disclosures Offsetting of Financial assets and Financial Liabilities" to IFRS 7 "Financial instruments: Disclosures";
- Annual Improvements to IFRSs: 2009-2011 Cycle.

IFRS 9 "Financial Instruments" – Classification and Measurement; Additions to IFRS 9 for Financial Liability Accounting

IFRS 9 was amended to defer the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 to annual periods beginning on or after 1 January 2015. The amendments continue to permit early application. This amendment was also referred to IFRS 7 "Financial Instruments: Disclosures" in the part of disclosure requirements related to amendment to IFRS 9 and its application to the financial accounting and reporting for financial instruments.

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

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

IFRS 10 “Consolidated Financial Statements”

IFRS 10 replaces the portion of IAS 27 “Consolidated and Separate Financial Statements” that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 “Consolidated – Special Purpose Entities”. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The standard becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 11 “Joint Arrangements”

IFRS 11 replaces IAS 31 “Interest in Joint Ventures” and SIC-13 “Jointly-controlled Entities – Non-monetary Contributions by Venturers”. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet a definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after 1 January 2013. The amendments are expected to have no impact on the Group’s consolidated financial statements.

IFRS 12 “Disclosure of Interests in Other Entities”

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures related to an entity’s interest in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 13 “Fair Values Measurement”

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provide guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact that this standard will have on the consolidated financial position and performance.

IAS 19 “Employee benefits” (as revised in 2011)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The elimination of the “corridor approach” permitted under the previous version of IAS 19 and provision for accelerated recognition of past service cost are the most important new requirements. The amendments require all actuarial gains and losses be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. The amendments will not have an impact on the Group’s consolidated financial statements because of absence of the transactions to which they relate.

IAS 27 “Separate Financial Statements” (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The amendments are expected to have no impact on the Group’s consolidated financial statements.

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

IAS 28 "Investments in Associates and Joint Ventures" (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 "Investments in Associates and Joint Ventures", and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The amendments are expected to have no impact on the Group's consolidated financial statements.

Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities"

In June 2012 the IASB issued the amendments to IFRS 10, IFRS 11 and IFRS 12 to clarify certain transitional guidances on the application of these IFRSs for the first time. The effective of the amendments is the same as the effective date of IFRS 10, IFRS 11 and IFRS 12, i.e. 1 January 2013 for calendar-year entities. The amendments are expected to have no impact on the Group's consolidated financial statements.

Amendments "Investment Entities" to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements (as revised in 2011)"

In October 2012 the IASB issued the amendments to IFRS 10 which introduced an exception to consolidating subsidiaries for any investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under these amendments, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss. In addition, certain criteria have to be met for qualification as an investment entity. Consequential amendments to IFRS 12 and IFRS 27 (as revised in 2011) have been made to introduce new disclosure requirements for investment entities. The amendments to IFRS 10, IFRS 12 and IAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The amendments are expected to have no impact on the Group's consolidated financial statements.

Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" for Government Grants;

On 13 March 2012 the IASB issued Government Loans Amendments to IFRS 1 providing relief to first-time adopters of IFRSs by amending IFRS 1 to permit prospective application of IAS 39 "Financial Instruments: Recognition and Measurement" or, when applied, IFRS 9 "Financial Instruments" and paragraph 10A of IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" to government loans outstanding at the date of transition to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013, with early application permitted. The amendments will not have an impact on the Group's consolidated financial statements because of absence of the transactions to which they relate.

Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or measurement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual period beginning on or after 1 July 2012.

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

Amendments "Offsetting of Financial assets and Financial Liabilities" to IAS 32 "Financial instruments: Presentation" and amendments "Disclosures Offsetting of Financial assets and Financial Liabilities" to IFRS 7 "Financial instruments: Disclosures"

In December 2011, the IASB amended IFRS 7 "Financial instruments: Disclosures" and IAS 32 "Financial instrument: presentation". Amendments clarify assets and liabilities offsetting rules and introduce new related disclosure requirements. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. The new disclosure requirements in IFRS 7 are effective for annual periods beginning on or after January 1, 2013. The Group is currently assessing the impact of these amendment on its consolidated financial statements and do not expect the amendments to have a material impact on the Group's consolidated statement of financial position and results of operations.

Annual Improvements to IFRSs 2009-2011 Cycle

On 17 May 2012 the IASB issued Annual Improvements to IFRSs: 2009-2011 Cycle, incorporating amendments to five IFRSs (IFRS 1 "First-time adoption of International Financial Reporting Standards", IAS 1 "Presentation of Financial Statements", IAS 16 "Property, Plant and Equipment", IAS 32 "Financial Instruments: Presentation", IAS 34 "Interim Financial Reporting"). This is the fourth collection of amendments issued under the annual improvement process, which is designed to make necessary, but non-urgent, amendments to IFRSs. The amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. Entities are permitted to early adopt any individual amendment within the Annual Improvements to IFRSs: 2009-2011 Cycle without early adopting all other amendments. The Group does not expect any significant impact on its consolidated financial statements which can be caused by these Improvements to IFRSs.

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

<u>Inventory valuation</u>

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

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

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

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

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

Tax and customs provisions and contingencies

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

The Group obtains various types of supplier bonuses. Current Russian tax legislation is unclear if the amount of VAT refund relating to goods purchased should be decreased by the amount of VAT on such bonuses. The Group believes that its interpretation of the current tax legislation is consistent with industry practice, is appropriate and no additional tax liabilities arise in respect of supplier bonuses. On 29 March 2012 the Supreme Arbitration Court of the Russian Federation published a Decision of its Presidium, which provides some additional guidance on the Court's interpretation of the Russian tax legislation on supplier bonuses. Further Group position on this matter will depend on the court practice and amendments of the legislation related to bonuses from suppliers, if and when it may occur.

Recovery of deferred tax assets

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

Share-based payments

The cost of equity-settled transactions with employees (under Long-term incentive plan hereinafter "LTIP") is based on the Group's estimate of the number of equity instruments that will eventually vest and other estimates outlined in Note 30.

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

Useful life of property, plant and equipment

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

Revenue attributed to loyalty program points

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

Allowance for Doubtful Accounts

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

Critical judgments in applying the Group’s accounting policies

Recognition of revenue from sale of ASA and associated costs

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

With respect to sale of ASA until 1 October 2011 the Group operated under agreement concluded with a related party services center which assumed substantially all of the Group's obligations under all of the existing and future ASA for a consideration based on a fixed proportion of fees charged to customers. The fixed commission paid to a related party service center to provide coverage for the Group's obligations under the ASA was recognized immediately as part of “Cost of sales”. Other direct costs associated with the sale of ASA prior to 1 October 2011, such as sales bonuses paid to shop assistants were disclosed as part of “Selling, general and administrative expenses”. All obligations under ASA sold prior to 1 October 2011 remain with the related party service center until they expire.

On 1 October 2011 the Group changed its ASA-related practices in such a way that going forward the related party service center will no longer be assuming substantially all of the Group’s obligations under the ASA for a fixed consideration. Consequently, for all ASA certificates that are being sold since 1 October the Group recognizes revenue ratably over the term of ASA certificates and the related costs are recognized as incurred.

Supplier bonuses

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

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at 31 December 2012 and 2011 consisted of the following:

	Buildings	Leasehold improve-ments	Construc-tion in progress	Trade equipment	Security equipment	Other fixed assets	Total
Cost							
As at 31 December 2010	**4,237**	**3,234**	**15**	**1,610**	**697**	**1,165**	**10,958**
Additions	-	-	2,993	-	-	-	2,993
Transfers	1,091	479	(2,993)	687	227	509	-
Disposals	-	(57)	-	(86)	(13)	(115)	(271)
As at 31 December 2011	**5,328**	**3,656**	**15**	**2,211**	**911**	**1,559**	**13,680**
Additions	-	-	2,671	-	-	-	2,671
Transfers	121	562	(2,559)	962	212	702	-
Disposals	-	(90)	(1)	(143)	(42)	(101)	(377)
As at 31 December 2012	**5,449**	**4,128**	**126**	**3,030**	**1,081**	**2,160**	**15,974**
Accumulated depreciation							
As at 31 December 2010	**588**	**1,025**	**-**	**796**	**463**	**669**	**3,541**
Charge for the year	300	408	-	325	146	276	1,455
Disposals	-	(34)	-	(80)	(12)	(110)	(236)
As at 31 December 2011	**888**	**1,399**	**-**	**1,041**	**597**	**835**	**4,760**
Charge for the year	279	587	-	447	179	379	1,871
Disposals	-	(51)	-	(117)	(41)	(93)	(302)
As at 31 December 2012	**1,167**	**1,935**	**-**	**1,371**	**735**	**1,121**	**6,329**
Net book value							
As at 31 December 2011	**4,440**	**2,257**	**15**	**1,170**	**314**	**724**	**8,920**
As at 31 December 2012	**4,282**	**2,193**	**126**	**1,659**	**346**	**1,039**	**9,645**

Depreciation expenses have been included in "Selling, general and administrative expenses" (Note 25).

In the year ended 31 December 2012 the Group changed presentation of certain groups of property, plant and equipment as against the year ended 31 December 2011 in order to enhance fair presentation of this note. With this regard the Group made reclassifications to the prior period's amounts to conform to the presentation of the current reporting period: cost in amount of 140 and accumulated depreciation in amount of 91 were reclassified from Leasehold improvements to Buildings.

7. INTANGIBLE ASSETS

Intangible assets as at 31 December 2012 and 2011 consisted of the following:

	Software licenses and development	Trademarks	Total
Cost			
As at 31 December 2010	**1,041**	**20**	**1,061**
Additions	652	1	653
As at 31 December 2011	**1,693**	**21**	**1,714**
Additions	1,109	4	1,113
Disposals	(16)	-	(16)
As at 31 December 2012	**2,786**	**25**	**2,811**
Accumulated amortization			
As at 31 December 2010	**265**	**5**	**270**
Charge for the year	181	2	183
As at 31 December 2011	**446**	**7**	**453**
Charge for the period	280	2	282
Disposals	(16)	-	(16)
As at 31 December 2012	**710**	**9**	**719**
Net book value			
As at 31 December 2011	**1,247**	**14**	**1,261**
As at 31 December 2012	**2,076**	**16**	**2,092**

During 2012 the Group incurred expenditures in the total amount of 1,109 (2011: 652) which for the most part related to the implementation of additional functionality of the Group's ERP system SAP R\3 and other software used in planning and execution of the retail operations.

Amortization expense has been included in "Selling, general and administrative expenses" (Note 25).

As at 31 December 2012 and 2011 the Group had commitments for the acquisition of software licenses (Note 33).

8. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2012 and 2011 consisted of the following:

	2012	2011
Long-term advances paid for rent (Note 2)	540	500
Long-term loans and notes receivable	55	43
Long-term part of warranty asset – in respect of Additional Service Agreements (ASA, Note 22)	22	95
Less: allowance for doubtful long-term advances paid for rent	(42)	(44)
Total	**575**	**594**

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

	2012	2011
Balance at the beginning of the year	44	69
Amounts recovered during the year	-	(25)
Amounts written off as uncollectible	(2)	-
Balance at the end of the year	**42**	**44**

9. INVENTORIES

Inventories as at 31 December 2012 and 2011 consisted of the following:

	2012	2011
Goods for resale	33,683	25,429
Other inventories	90	74
Less: allowance for obsolete and slow-moving inventories	(1,514)	(1,016)
Total	**32,259**	**24,487**

For information relating to the cost of inventory recognized as an expense during the year ended 31 December 2012 and 2011 refer to Note 24.

As at 31 December 2012 inventories with the carrying amount of 9 (31 December 2011: 759) were pledged as collateral under financial guarantee contracts entered into by the Group (Note 33).

10. ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

Accounts receivable and prepaid expenses as at 31 December 2012 and 2011 consisted of the following:

	2012	2011
Advances paid to suppliers and prepaid expenses (Note 2)	647	740
Other accounts receivable	1,001	716
Advances paid to related parties (Note 31)	25	38
Less: allowance for doubtful accounts receivable	(116)	(248)
Total	**1,557**	**1,246**

As at 31 December 2012 the Group did not have trade and other accounts receivable past due but not impaired (31 December 2011: the age of such receivables did not exceed 30 days).

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

	2012	2011
Balance at the beginning of the year	248	287
Impairment losses recognized on trade and other accounts receivable	64	60
Amounts written off as uncollectible	(78)	(81)
Amounts recovered during the year	(118)	(18)
Balance at the end of the year	**116**	**248**

The trade and other accounts receivable impaired as at 31 December 2012 were aged 120+ days (31 December 2011: 120+ days).

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

In determining the recoverability of trade and other accounts receivable the Group considers any change in the credit quality of trade and other receivables from the date credit was initially granted up to the reporting date. Details about concentration of credit risk and related management activities are provided in Note 34.

11. OTHER TAXES RECEIVABLE

Other taxes receivable as at 31 December 2012 and 2011 consisted of the following:

	2012	2011
VAT recoverable	1,931	1,220
Other taxes receivable	-	19
Total	**1,931**	**1,239**

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2012 and 2011 consisted of the following:

	2012	2011
Short-term bank deposits	450	9,195
Cash at banks	2,046	1,470
Cash in transit	3,687	2,295
Petty cash and cash in stores	338	260
Total	**6,521**	**13,220**

As at 31 December 2012 and 2011 the fair value of cash and cash equivalents equals to their carrying value.

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

Short-term deposits in banks outstanding as at 31 December 2012 earn interest 8.25% per annum (31 December 2011: from 3.5% to 8.61% per annum). Short-term deposits mature in February 2013 (2011: January-February 2012).

13. SHORT-TERM INVESTMENTS

Short-term investments as at 31 December 2012 and 2011 consisted of the following:

	Interest rate	Maturity	2012	2011
Short-term deposit in bank	8.0%	February 2013	540	-
Short-term deposit in bank	8.3%	June 2013	441	-
Total short-term deposits in banks			**981**	**-**

As at 31 December 2012 short-term deposits in banks (Note 34) were denominated in RUB.

14. OTHER CURRENT ASSETS

Other current assets as at 31 December 2012 and 2011 consisted of the following:

	2012	2011
Short-term part of warranty asset – in respect of ASA (Note 22)	73	196
Short-term loans	-	1
Other current assets	6	7
Total	**79**	**204**

15. EQUITY

Share capital

As at 31 December 2012 and 2011 the Company had the following number of authorised, issued and outstanding ordinary shares:

	Outstanding ordinary shares	Issued ordinary shares	Authorised ordinary shares
Balance as at 31 December 2012 and 31 December 2011	**177,068,227**	**179,768,227**	**209,768,227**

Each share has par value of 10 RUB per share. During 2012 and 2011 there were no changes in the number of authorised and issued ordinary shares of the Company. All issued ordinary shares were fully paid.

Additional paid-in capital

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

Treasury shares

In September 2010 following the approval by the Board of Directors, the Group purchased 2,700,000 issued ordinary shares of the Company to be subsequently offered to the members of the LTIP Series 3 program in order to service the resulting subscription rights, for total cash consideration of 588. All 2,700,000 shares were held as treasury shares at cost as at 31 December 2010, 2011 and 2012.

Dividends declared

On 22 June 2012 the Annual General Meeting approved dividends of 5.80 RUB per share in respect of 2011. On 5 December 2012 the Extraordinary General Shareholders Meeting approved dividends of 30.00 RUB per share in respect of 9 months 2012.

Dividends attributable to the treasury shares were eliminated in full for the purpose of these consolidated financial statements. After the approval, dividends payable to the holders of outstanding ordinary shares of the Company were recognized as a reduction of shareholders' equity in these consolidated financial statements in the total amount 6,348.

16. INCOME TAX

The Group's income tax expense for the years ended 31 December 2012 and 2011 was as follows:

	2012	2011
Current tax expense	(2,094)	(1,439)
Deferred tax benefit	681	175
Total income tax expense	**(1,413)**	**(1,264)**

The tax effect on the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2012 and 2011 is presented below:

	2012	2011
Deferred tax assets		
Supplier bonuses allocated to inventories	828	572
Deferred revenue	473	239
Accrued expenses	499	226
Allowance for obsolete and slow-moving inventories	165	201
Difference in depreciable value of property, plant and equipment	-	200
Salary-related accruals	161	133
Allowance for doubtful debts	31	58
Other items	53	37
Total	**2,210**	**1,666**
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment and intangible assets	179	310
Other items	1	7
Total	**180**	**317**

As at 31 December 2012 and 2011 the Group measured deferred tax assets and deferred tax liabilities using tax rate of 20%, which is the rate expected to be applied in the period in which the asset is realized or the liability is settled.

The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the profit before income tax expense. Below is a reconciliation of theoretical income tax expense at the statutory rate of 20% effective for 2012 and 2011 to the actual expense recorded in the Group's consolidated statement of comprehensive income:

	2012	2011
Profit before income tax expense	5,554	4,638
Theoretical income tax expense at the statutory rate of 20%	(1,111)	(928)
Adjustments due to:		
Losses due to inventory shortages	(41)	(45)
Other non-deductible expenses, net	(261)	(291)
Income tax expense	**(1,413)**	**(1,264)**

16. INCOME TAX (CONTINUED)

As at 31 December 2012 there were no taxable temporary differences related to investments in subsidiaries for which deferred tax liabilities might have been recognized if the Group hadn't been in a position to control the timing of the reversal of these temporary differences (31 December 2011: nil). No taxable temporary differences exist due to changes in Tax Code of the Russian Federation effective 1 January 2011. According to these changes, distributions of a subsidiary's earnings are subject to 0% rate of withholding tax in case a holding entity has owned 50% or more shares of its subsidiary during a calendar year preceding the date of a decision to distribute subsidiaries' earnings.

17. TRADE ACCOUNTS PAYABLE

Trade accounts payable as at 31 December 2012 and 2011 consisted of the following:

	2012	2011
Trade accounts payable to third parties	35,586	32,673
Total	**35,586**	**32,673**

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

18. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as at 31 December 2012 and 2011 consisted of the following:

	2012	2011
Rent and utilities	1,684	1,083
Salaries and bonuses	712	605
Property, plant and equipment and intangible assets	597	137
Unused vacation	116	108
Cost of services	87	33
Warehouse service	77	11
Service center	72	10
Repair and maintenance	57	32
Security services	49	41
Packaging and raw materials	45	63
Consulting fees	40	37
Other current liabilities to related parties (Note 31)	33	35
Bank charges	32	15
Legal and audit	22	20
Other payables and accrued expenses	67	124
Total	**3,690**	**2,354**

Accounts payable and accruals for rent and utilities include accrued liabilities for lease payments calculated on a straight line basis over the lease term in the amount of 1,320 (31 December 2011: 821).

19. ADVANCES RECEIVED

Advances received as at 31 December 2012 and 2011 consisted of the following:

	2012	2011
Advances received for gift cards	912	756
Other advances received	75	46
Total	**987**	**802**

20. OTHER TAXES PAYABLE

Other taxes payable as at 31 December 2012 and 2011 consisted of the following:

	2012	2011
Payroll taxes	283	240
VAT payable	529	184
Other taxes payable	95	105
Total	**907**	**529**

21. DEFERRED REVENUE

Deferred revenue as at 31 December 2012 and 2011 consisted of the following:

	2012			2011		
	Customer loyalty program "M.video Bonus"	Other programs	Additional services	Customer loyalty program "M.video Bonus"	Other programs	Additional services
As at 1 January	1,077	797	681	1,074	611	-
Revenue deferred during the period	4,039	1,171	2,455	3,077	797	725
Revenue released to the consolidated statement of comprehensive income	(3,651)	(1,068)	(814)	(3,074)	(611)	(44)
As at 31 December	**1,465**	**900**	**2,322**	**1,077**	**797**	**681**

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

22. PROVISIONS

Provisions as at 31 December 2012 and 2011 consisted of the following:

	Non-current		Current	
	2012	**2011**	**2012**	**2011**
Warranty provision – in respect of ASA (i)	22	95	73	196
Provision for goods return	-	-	108	76
Warranty provision – repair of goods (ii)	6	5	14	10
Total	**28**	**100**	**195**	**282**

(i) The warranty provision in respect of ASA represents management's best estimate of the future outflow of economic benefits that will be required under the Group's 2, 3 and 5 year ASA certificates sold prior to 1 October 2011. A Group entity sells the ASA directly to customers; however, before 1 October 2011 a back-to-back agreement was in effect between the Group entity and a related party which provided for transfer the obligations under the ASA from the Group to the related party. For this reason an equal corresponding non-current (Note 8) and current (Note 14) asset has been recognized by the Group, and disclosed within other assets. The estimate has been made on the basis of historical warranty trends and may vary as a result of events affecting product quality and expected cost of services.

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

The movement in provisions during the years ended 31 December 2012 and 2011 is as follows:

	Warranty – ASA	**Warranty – Repair of goods**	**Provision for goods return**
Balance as at 1 January 2011	378	10	59
Change in provision	(87)	5	17
Balance as at 1 January 2012	291	15	76
Change in provision	(196)	5	32
Balance as at 31 December 2012	**95**	**20**	**108**

23. REVENUE

Revenue for the years ended 31 December 2012 and 2011 consisted of the following:

	2012	**2011**
Retail revenue (including internet sales)	132,779	110,478
ASA revenue	814	1,459
Total	**133,593**	**111,937**

24. COST OF SALES

Cost of sales for the years ended 31 December 2012 and 2011 consisted of the following:

	2012	2011
Cost of goods and services	98,177	82,855
Transportation to the retail stores (Note 2)	1,759	1,782
Inventory losses	204	160
Change in allowance for obsolete and slow-moving inventory	498	(397)
Total	**100,638**	**84,400**

25. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2012 and 2011 consisted of the following:

	2012	2011
Payroll and related taxes	8,742	7,112
Lease expenses, net of income from sublease (2012: 15; 2011: 41)	6,480	5,327
Advertising and promotional expenses	3,665	3,289
Depreciation and amortization	2,153	1,638
Warehouse services, including related lease expenses	1,757	1,508
Utilities expense	1,331	1,070
Security	868	754
Repair and maintenance	781	760
Bank charges	779	554
Transportation to customers	754	598
Consulting services	442	264
Taxes other than income tax	345	369
Other expenses	1,279	1,140
Total	**29,376**	**24,383**

Payroll and related taxes include 1,302 contribution to the state pension fund (2011: 1,095) and social and medical insurance in the amount of 452 (2011: 352). During 2012 the Group received 405 from its suppliers as a compensation of advertising and promotional expenses (2011: 276).

Lease expenses for the year ended 31 December 2012 include loss on change in fair value of currency forward contracts of 173 (2011: 35).

26. OTHER OPERATING INCOME

Other operating income for the years ended 31 December 2012 and 2011 includes commissions received from banks on loans provided to customers, income earned from suppliers for advertising materials placed in the Group’s stores, goods delivery, income from leases and other items.

27. OTHER OPERATING EXPENSES

Other operating expenses for the year ended 31 December 2012 and 2011 consisted of individually insignificant items.

28. FINANCE INCOME, NET

Finance income/(costs), net for the years ended 31 December 2012 and 2011 consisted of the following:

	2012	2011
Interest expense on bank loans	(113)	(37)
Interest income on bank deposits	295	74
Total	**182**	**37**

29. EARNINGS PER SHARE

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

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

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

	2012	2011
Net profit attributable to equity holders of the Company	4,141	3,374
Weighted average number of ordinary share in issue (millions of shares)	177.07	177.07
Effect of share options granted to employees (millions of shares)	2.70	2.70
Basic earnings per share (in Russian rubles)	**23.39**	**19.05**
Weighted average number of ordinary shares for the purpose of diluted earnings per share (millions of shares)	179.77	179.77
Diluted earnings per share (in Russian rubles)	**23.04**	**18.77**

30. SHARE-BASED PAYMENTS

Employee share option plan

The Group had one equity-settled share option scheme in operation during the year ended 31 December 2012. During the previous year the Group had two share option schemes in operation, one of which was fully settled in April 2011.

Long-term incentive plan Series 2 ("LTIP 2")

Under LTIP 2, which was adopted on 1 April 2008, 46 members of the management team became members of the plan and 756,000 of the shares designated for the LTIP were committed. All shares designated for LTIP 2 vested as at 1 April 2011.

In accordance with the provisions of the plan each employee share option allows the recipient to purchase one ordinary share of OJSC "Company M.video" from M.video Investment Ltd. (BVI). The proceeds from the purchase is payable to the existing shareholder. No amounts are paid or payable by the recipient on receipt of the option.

The options carry neither rights to dividends nor voting rights. Employees must be employed at the vesting date to exercise his or her right unless the Board of Directors waives this condition. The number of options granted per employee is determined by the President and approved by the Board of Directors. Participants are able to exercise their options within 30 days since the vesting date by paying 10 RUB per share to the operator of the program.

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

On 9 December 2009 the Board of Directors approved the adoption of Series 3 of the LTIP for selected members of the Group's management team. 56 positions were enrolled in the plan and 3,170,000 of the shares were designated for LTIP 3. The shares will be granted by the Group to the participants of the plan at the appropriate vesting dates provided that the participants are employed to exercise his or her right unless the Board of Directors waives this condition. Consideration given to this non-market vesting condition requires the management to estimate the number of shares that will eventually vest and to adjust accordingly the number of shares included in the measurement of the transaction amount. Based on existed accumulated data on staff turnover the management best estimate of the number of shares eventually expected to vest is 2,615,010 (2011: 2,670,000).

Summary of the arrangements in existence as at 31 December 2012 and 2011

The following table contains details of the arrangements that were in existence as at 31 December 2012 and 2011:

Option series	Number of options as at 31 December 2012	Number of options as at 31 December 2011	Grant date	Vesting date	Expiry date	Exercise price (RUB)	Fair value at grant date (RUB)
LTIP 2							
Issued 1 April 2008	-	134,000	1 April 2008	1 April 2011	30 April 2011	10	170.39
LTIP 3							
Issued 9 December 2009	1,220,010	1,275,000	9 December 2009	1 April 2013	30 April 2013	-	118.47
Issued 9 December 2009	1,395,000	1,395,000	9 December 2009	1 April 2015	30 April 2015	-	118.49

30. SHARE-BASED PAYMENTS (CONTINUED)

Fair value of share options

The weighted average fair values of the share options granted under LTIP 2 and LTIP 3 and outstanding as at 31 December 2012 and 2011 are as follows (in RUB):

Option series	31 December 2012	31 December 2011
LTIP 2	-	170.39
LTIP 3	118.48	118.48

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

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

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

Movements in share options during the period

The following reconciles the outstanding share options granted under the employee share plan at the beginning and end of the years ended 31 December 2012 and 2011:

	LTIP 2		LTIP 3	
	Number of options expected to vest	Weighted average exercise price (RUB)	Number of options expected to vest	Weighted average exercise price (RUB)
Balance as at 1 January 2011	**134,000**	**10**	**2,670,000**	**-**
Exercised during the period	(134,000)	10	-	-
Balance as at 31 December 2011	**-**	**10**	**2,670,000**	**-**
Balance as at 1 January 2012	**-**	**-**	**2,670,000**	**-**
Forfeited during the period	-	-	(54,990)	-
Balance as at 31 December 2012	**-**	-	**2,615,010**	**-**

The weighted average remaining contractual life of the share options granted under LTIP 3 outstanding as at 31 December 2012 is 480 days (31 December 2011: 838 days).

30. SHARE-BASED PAYMENTS (CONTINUED)

Share-based payments expense

The summary of expenses recognized by the Group in respect of share-based payments in the years ended 31 December 2012 and 2011 is as follows:

	For the year ended	
Option series	**31 December 2012**	**31 December 2011**
LTIP 2	-	2
LTIP 3	72	77
Total	**72**	**79**

The above expense has been included into "Selling, general and administrative expenses" in the line item "Payroll and related taxes" (Note 25).

31. RELATED PARTIES

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

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year (for information regarding outstanding balances as at 31 December 2012 and 2011, also refer to Notes 10 and 18):

	2012		31 December 2012		2011		31 December 2011	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
LLC "Universal service"	-	-	-	-	10	260	23	1
Transservice Group of Companies	1	206	24	20	8	238	15	16
LLC "Avto-Express"	-	77	-	4	-	92	-	11
Avtoritet Group of Companies	1	67	-	4	1	66	-	3
LLC "Noviy Format"	-	27	-	3	-	262	-	3
LLC "MV. Stil"	1	-	-	-	1	-	-	-
LLC "Private Security Agency Bars-SB"	1	252	1	2	1	242	-	1
LLC "TechnoVideoService"	-	5	-	-	-	-	-	-
CONplementation International business Consulting Vienna	-	-	-	-	-	3	-	-
Total	**4**	**634**	**25**	**33**	**21**	**1,163**	**38**	**35**

31. RELATED PARTIES (CONTINUED)

The nature of transactions with related parties is as follows:

- LLC "Universal Service" – provides after sale servicing and other related servicing of merchandize sold in connection with ASA;
- Transservice Group of Companies – provides after sale and other servicing of the Group's merchandise;
- LLC "Avto-Express" – provides a car leasing service to the Group and logistic services;
- Avtoritet Group of Companies – provides rent services;
- LLC "Noviy Format" – for the period ended 31 December 2012 the transactions related to rent services; for the period ended 31 December 2011 the transactions related to purchase of the buildings;
- LLC "MV. Stil" – acquires rent services;
- LLC "Private Security Agency Bars-SB" – provides store and head office security services;
- LLC "TechnoVideoService" – provides home appliances installation services;
- CONplementation International business Consulting Vienna – provides consulting services to LLC "M.video Management". The entity is under control of key management personnel.

The ultimate parent entity

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

There were no transactions between the Group and the ultimate parent during the years ended 31 December 2012 and 2011.

Immediate parent entity

"Svece Ltd" owns 57.7868% of the ordinary shares of OJSC "Company M.video" as at 31 December 2012 (67.7868% as at 31 December 2011).

Refer to Note 1 for additional information on the ultimate controlling party of the Group and Note 30 for details for the share-based payment transactions involving the immediate parent entity.

Terms and conditions of transactions with related parties

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Outstanding balances at the year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party accounts receivable or payable. For the year ended 31 December 2012, the Group has not recorded any impairment of accounts receivable relating to amounts owed by related parties (2011: 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.

31. RELATED PARTIES (CONTINUED)

Compensation of key management personnel of the Group

The remuneration of directors and other members of key management during the year ended 31 December 2012 and 2011 was as follows:

	2012	2011
Short-term benefits*	291	217
Share-based payments	27	33
Total	**318**	**250**

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

As at 31 December 2012 there is 92 outstanding payable to key management personnel (2011: 61).

The number of key management positions was 16 in 2012 (2011: 17).

The Group did not provide any material post employment or other long-term benefits to key management personnel during the period other than contributions to state pension fund and the social funds as a part of payments of social security contributions on salaries and bonuses. SSC paid relating to compensation of key management personnel amounted to 15 for the year ended 31 December 2012 (SSC paid in 2011 was 2) and is included in the amounts stated above.

32. OPERATING LEASE AGREEMENTS

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 20 years. The majority of the lease contracts contain escalation clauses. Certain lease contracts stipulate terms requiring the Group to pay the higher amount 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

	2012	2011
Minimum lease payments	5,908	5,287
Contingent rentals	447	307
Total	**6,355**	**5,594**

Non-cancellable operating lease commitments

Future minimum rentals payable under non-cancelable operating leases for premises occupied as at 31 December 2012 and 2011 are as follows:

	2012	2011
Within one year	5,564	4,676
After one year but not more than five years	19,467	15,899
More than five years	15,409	7,868
Total	**40,440**	**28,443**

33. 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 global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser growth than in prior years or no growth. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. In 2012 the Russian Government continues to take measures to support the economy in order to overcome the consequences of the global financial crisis. Consequently, there continues to be uncertainty regarding further economic growth, access to capital and cost of capital for the Group and its counterparties, which could affect the Group’s financial position, results of operations and business prospects. Although any further deterioration in the areas described above could negatively affect the Group’s results and financial position in a manner not currently determinable, the management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

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.

During 2012 the Group neither recognized nor reversed any amount of tax provision for income and other taxes (2011: no provision recognized or reversed). Therefore as at 31 December 2012 the balance of tax provision remained unchanged and amounted to 133.

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 2012. 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.

33. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Customs

During the years ended 31 December 2012 and 2011, the Group purchased a significant portion of its foreign manufactured goods on the territory of the Russian Federation from Russian legal entities, including Russian wholesalers or resellers, which may or may not have imported the goods into Russia directly. As the Group was not involved in clearing customs for the goods purchased on the territory of Russia, management cannot be certain that the entities which imported the goods into Russia were in full compliance with the applicable regulations of the Russian customs code.

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

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

License Agreements

As at 31 December 2012, the Group had a total commitment of approximately 2.5 - 2.8 million EUR per annum (or 100.6 – 111.1 million RUB per annum using exchange rate published on the Central Bank website of 40.2286 RUB/ EUR as at 31 December 2012) for technical support services with respect to existing SAP licenses and software during the period from 2012 to 2016 (31 December 2011: approximately 1.5 – 1.7 million EUR per annum, or 63.3 – 71 million RUB per annum using exchange rate published on the Central Bank website of 41.6714 RUB/ EUR as at 31 December 2011). The Group uses SAP software for finance, supply chain and human resources functions.

Litigation

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

Environmental matters

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

Financial guarantees

In the normal course of its operating activity the Group from time-to-time enters into financial guarantee contracts with banks. Under these contracts the banks provide guarantees in favour of the Group's suppliers and the Group may be required to pay under those contracts only if it fails to make timely payments to its suppliers. As at 31 December 2012 the Group entered into such guarantee contracts for the total amount of 710 (2011: 1,226). The Group has pledged its inventories with the carrying amount of 9 (2011: 759) as collateral under these guarantee contracts.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

The Group's senior management oversees the management of these risks. The Group's senior management provides assurance to the Group's Board of Directors that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. No changes were made in objectives, policies or processes during the years ended 31 December 2012 and 2011.

The capital structure of the Group consists of cash and cash equivalents (Note 12) and equity attributable to equity holders of the parent, comprising issued capital (less treasury shares), additional paid in capital and retained earnings.

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

Significant accounting policies

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

Categories of financial instruments

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

	2012	2011
Financial assets		
Fair value through profit or loss (FVTPL)	-	2
Loans and receivables (including cash and cash equivalents)	8,467	14,369
Financial liabilities		
Fair value through profit or loss (FVTPL)	25	20
Liabilities carried at amortized cost	39,251	35,007

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk management

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has transactional currency exposures arise from lease payments tied-in to currencies other than functional currency. The Group uses forward exchange contracts to eliminate the currency exposures. The forward exchange contracts are in the same currency as an item denominated in the foreign currency. The Group does not designate forward contracts as hedges for accounting purposes.

The Group's forward contracts are the only monetary items that give rise to foreign currency risk. The following table details the forward foreign currency contracts outstanding at the reporting date:

	Contract value in mln foreign currency		Contract value in mln Russian RUB		Fair value	
	2012	2011	2012	2011	2012	2011
Buy EUR	4	9	177	406	(2)	(20)
Buy USD	36	63	1,134	2,068	(23)	2

Foreign currency sensitivity analysis

As mentioned above, the Group is mainly exposed to the currencies of the United States of America (USD) and the European zone (EUR).

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

	USD		EUR	
	Changes in exchange rate, %	Effect on profit before income tax	Changes in exchange rate, %	Effect on profit before income tax
2012	+10%	113	+5%	9
	-10%	(113)	-5%	(9)

	USD		EUR	
	Changes in exchange rate, %	Effect on profit before income tax	Changes in exchange rate, %	Effect on profit before income tax
2011	+10%	207	+5%	20
	-10%	(207)	-5%	(20)

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 2012 the Group does not have any borrowings or other financial liabilities bearing floating interest rates (31 December 2011: nil).

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk management

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

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

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

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

The table below shows the balances that the Group has with 4 of its major counterparties as at the balance sheet date:

Counterparty	Currency	Rating	Carrying amount 2012	Carrying amount 2011
Gazprombank	RUB	Baa3	743	4,700
Sberbank	RUB	Prime-2	244	-
Metallinvestbank	RUB	Baa1	-	1,500
Credit Europe Bank	RUB	Ba3	450	1,500
Credit Bank of Moscow	RUB	B1/NP	2,040	1,495
Total			**3,477**	**9,195**

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. There were no other concentrations of credit risk as at 31 December 2012 (31 December 2011: nil).

Liquidity risk management

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

The Group's objective is to maintain a continuity of funding and flexibility through the use of bank overdrafts and bank loans. Each year the Group analyses its funding needs and anticipated cash flows, so that it can determine its funding obligations. The seasonality of the business, the store expansion plan, capitalized projects 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.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

As at 31 December 2012 the Group had obtained uncommitted standby borrowing facilities in the total amount of 3,000 (31 December 2011: 9,500).

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December 2012 and 2011 based on contractual undiscounted payments:

As at 31 December 2012	**Less than 3 months**	**Total**
Trade accounts payable	35,586	35,586
Other accounts payable and accrued expenses	3,680	3,690
Total	**39,266**	**39,276**

As at 31 December 2011	**Less than 3 months**	**Total**
Trade accounts payable	32,673	32,673
Other accounts payable and accrued expenses	2,338	2,354
Total	**35,011**	**35,027**

Fair value of financial instruments

Management consider that the carrying amounts of financial assets and financial liabilities reflected in the Group's consolidated statement of financial position as at 31 December 2012 and 2011 approximate their fair values.

35. SUBSEQUENT EVENTS

After the balance sheet date no events occurred which require disclosure in the consolidated financial statements.