Open Joint Stock Company “Company M.video” and subsidiaries (the “Group”)

Consolidated
Financial Statements
Year Ended 31 December 2007

OJSC "COMPANY M.VIDEO" AND SUBSIDIARIES

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 2 is made with a view of distinguishing the respective responsibilities of the management and those of the independent auditors in relation to the consolidated financial statements of OJSC "Company M.video" and subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Group as at 31 December 2007 and the consolidated 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:

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2007 were approved on 29 July 2008 by:

A. Tynkovan
Chief Executive Officer

C. Parks
Chief Financial Officer

Deloitte.

Deloitte & Touche Regional
Consulting Services Limited
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Company M.video" and its subsidiaries (collectively, the "Group"), which comprise of the balance sheet as at 31 December 2007, and the income statement, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche CIS

Moscow
29 July 2008

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2007
(in millions of Russian Rubles)

	Notes	2007	2006
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	5	4,412	3,424
Construction in process		20	35
Intangible assets	6	29	33
Long term loans and notes receivable	7	5	37
Deferred tax assets	16	723	378
Deferred costs		-	9
Advances paid for property, plant and equipment		42	14
Forward exchange contract		32	-
Other assets	23(i)	162	-
Total non-current assets		5,425	3,930
CURRENT ASSETS:			
Available for sale investment at cost		-	28
Inventories	8	10,187	6,961
Trade accounts receivable	9	76	667
Other accounts receivable and prepaid expenses	10	1,758	1,307
Value added tax recoverable and other taxes receivable	11	1,590	1,666
Income tax receivable		6	15
Short-term loans and notes receivable	12	15	102
Deferred costs		-	8
Short term investment	13	1,290	-
Cash and cash equivalents	14	2,380	932
Total current assets		17,302	11,686
TOTAL ASSETS		**22,727**	**15,616**

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2007
(in millions of Russian Rubles)

	Notes	2007	2006
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY:			
Issued capital	15	1,798	1,498
Additional paid in capital		4,576	-
Retained earnings/(Accumulated deficit)		265	(403)
Total shareholders' equity		6,639	1,095
NON-CURRENT LIABILITIES:			
Long-term loans and borrowings	17	2,127	2,053
Forward exchange contract		-	15
Deferred tax liabilities	16	507	470
Deferred revenue		-	73
Provisions	23	165	3
Total non-current liabilities		2,799	2,614
CURRENT LIABILITIES:			
Trade accounts payable	19	9,176	5,809
Other payables and accrued expenses	20	600	391
Advances received from customers		293	149
Bonds payable	18	118	2,000
Short-term loans and borrowings	22	2,565	2,985
Value added tax and other taxes payable	21	98	155
Income tax payable		111	342
Deferred revenue		305	69
Provisions	23	7	7
Forward exchange contract		16	-
Total current liabilities		13,289	11,907
Total liabilities		16,088	14,521
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**22,727**	**15,616**

The notes on pages 10 to 54 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 2.

Signed on behalf of the Board of Directors: 29 July 2008

A. Tynkovan	**C. Parks**
Chief Executive Officer	Chief Financial Officer

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007
(in millions of Russian Rubles)

	Notes	2007	2006
REVENUE	24	52,317	36,258
COST OF SALES*	25	(39,953)	(28,433)
GROSS PROFIT		12,364	7,825
Selling, general and administrative expenses	26	(11,132)	(6,688)
Other operating income	27	947	205
Other operating expenses	28	(167)	(195)
OPERATING PROFIT		2,012	1,147
Finance costs, net	29	(776)	(411)
PROFIT BEFORE INCOME TAX EXPENSE		1,236	736
INCOME TAX EXPENSE	16	(587)	(338)
NET PROFIT FOR THE YEAR		**649**	**398**
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR BASIC AND DILUTED EARNINGS PER SHARE (in millions)		155	13**
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (in RUB)		4	31

*For information relating to the prior year reclassification, refer to Note 25.

** The weighted average number of ordinary shares and basic earnings per share attributable to ordinary equity holders reported in the Preliminary IFRS consolidated financial statements as at and for the year ended 31 December 2006 was 2,607 million and 0.1527 RUB respectively. As stated in Note 15, a reverse share split of 1:200 occurred on 13 July 2007. To ensure comparability from year to year, the weighted average number of ordinary shares for the year ended 31 December 2006 has been adjusted to arrive at the same basis used for the year ended 31 December 2007.

During December 2006, the Company issued the equivalent of an additional 149 million ordinary shares (29,833 million shares prior to 1:200 reverse share split) in exchange of issued share capital of LLC "Standard Invest" and LLC "Sphera Invest" (refer to Note 5).

During 2007, the Company issued an additional 30 million ordinary shares (refer to Note 15).

The notes on pages 10 to 54 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 2.

Signed on behalf of the Board of Directors: 29 July 2008

A. Tynkovan
Chief Executive Officer

C. Parks
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

(In millions of Russian Rubles)

	Share capital	Additional paid in capital	Retained earnings/ (Accumulated deficit)	Total
Balance as at 31 December 2005	**1**	**-**	**(523)**	**(522)**
Issuance of shares	1,497	-	-	1,497
Net profit for the year	-	-	398	398
Difference arising on transaction with shareholders, net of tax (Note 5)	-	-	92	92
Related deferred tax (Note 5)	-	-	(370)	(370)
Balance as at 31 December 2006	**1,498**	**-**	**(403)**	**1,095**
Issuance of shares (Note 15)	300	4,649	-	4,949
Share issuance costs	-	(92)	-	(92)
Related deferred tax	-	16	-	16
Related income tax	-	3	-	3
Recognition of share based payment for ordinary shares previously issued (Note 30)	-	-	26	26
Related deferred tax	-	-	(6)	(6)
Related income tax	-	-	(1)	(1)
Net profit for the year	-	-	649	649
Balance as at 31 December 2007	**1,798**	**4,576**	**265**	**6,639**

The notes on pages 10 to 54 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 2.

Signed on behalf of the Board of Directors: 29 July 2008

A. Tynkovan
Chief Executive Officer

C. Parks
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007
(In millions of Russian Rubles)

	2007	2006
OPERATING ACTIVITIES:		
Profit for the year	649	398
Adjustments for:		
Income tax expense recognized in profit or loss	587	338
Interest expense on loans	583	375
Coupon yield expense	171	21
Loss on sale or disposal of property, plant and equipment	-	8
Depreciation and amortization of non-current assets	524	299
Net foreign exchange loss	(26)	(28)
Change in allowance for doubtful debts	53	-
Share-based payment	26	-
Change in allowance for doubtful notes receivable	31	-
Change in fair value of forward contracts	22	15
Change in provision for goods returned	23	10
Change in provision for obsolete and slow moving goods	243	206
Change in provision for probable tax risks other than income tax	7	-
Operating cash flows before movements in working capital	2,893	1,642
Increase in inventories	(3,469)	(1,868)
Decrease/(increase) in trade accounts receivable	545	(611)
Increase in other accounts receivable and prepaid expenses	(481)	(1,070)
Decrease/(increase) in value added tax recoverable and other taxes receivable	76	(500)
Decrease/(increase) in deferred costs	17	(17)
Increase/(decrease) in trade accounts payable	3,367	(1,520)
Increase in other payables and accrued expenses	349	312
Increase in advances received from customers	144	101
Increase in warranty provision	-	3
(Decrease)/increase in value added tax and other taxes payable	(64)	120
Increase in deferred revenue	163	142
Cash generated by/(used in) operations	3,540	(3,266)
Income tax paid	(1,126)	(322)
Interest paid	(898)	(142)
Forward contracts settlement	(53)	-
Net cash generated by/(used in) operating activities	**1,463**	**(3,730)**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007
(In millions of Russian Rubles)

	2007	2006
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment (including construction in progress)	(1,476)	(925)
Short term investment with banks	(1,690)	-
Proceeds from settlement of short term investments	400	-
(Increase)/decrease in advances paid for property, plant and equipment	(28)	63
Purchases of intangible assets	(19)	(20)
Receipts from settlements of loans and notes receivable	114	48
Cash invested in loans and notes receivable	(41)	(105)
Net cash used in investing activities	**(2,740)**	**(939)**
FINANCING ACTIVITIES:		
Proceeds from issue of equity shares	4,949	-
Share issuance costs	(38)	-
Proceeds from sale of equity shares	28	5
Proceeds from borrowings	33,134	16,785
Repayment of borrowings	(35,348)	(11,927)
Net cash generated by financing activities	**2,725**	**4,863**
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,448	194
CASH AND CASH EQUIVALENTS at the beginning of the year	932	738
CASH AND CASH EQUIVALENTS at the end of the year	2,380	932

Refer to Notes 5 and 30 for details of non-cash transactions

The notes on pages 10 to 54 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 2.

Signed on behalf of the Board of Directors: 29 July 2008

A. Tynkovan
Chief Executive Officer

C. Parks
Chief Financial Officer

(In millions of Russian Rubles)

1. GENERAL INFORMATION

The consolidated financial statements of OJSC "Company M.video" (the "Company") and subsidiaries (the "Group") for the year ended 31 December 2007 were authorized for issue in accordance with a resolution of the Board of Directors on 29 July 2008.

The Company and its subsidiaries (refer listing below) are incorporated in the Russian Federation. The Company is registered at: 40/12, building 20, Nizhnaya Krasnoselskaya Street, Moscow, 105066, Russian Federation. Following an Initial Public Offering of the Company's shares in November 2007, the Company was admitted to trading on RTS and MICEX in Russia.

LLC "Company M.video" was incorporated on 3 December 2003. The reorganization of the Group's operational activities occurred over the period to December 2005, with the full trading operations commencing on 1 January 2006. As part of the reorganization prior to 1 January 2006 the Group acquired substantially all of its merchandise inventory from a related party of the Group (refer to Note 31). On 25 September 2006 the Company was reorganized from a Limited Liability Company to an Open Joint Stock Company.

The Group is the owner of a chain of consumer electronic stores operating in the Russian Federation. The Group specializes in the sale of TV, audio, video, Hi-Fi, home appliances and digital equipment, as well as related services.

The Group operates in two sectors: retail and wholesale. The retail sector is comprised of a chain of owned and leased stores (122 stores as at 31 December 2007; 85 stores as at 31 December 2006) and two online internet stores that sell to end users. The wholesale sector is comprised of sales to other retailers.

The following are subsidiaries of the Company as at 31 December 2007 and 2006:

Name of subsidiary	Nature of business	Proportion of ownership interest and voting power held, % 2007	Proportion of ownership interest and voting power held, % 2006
LLC "M.video Management"	Trading	100	100
LLC "M.video Torg"	Equipment	100	100
LLC "M.video Trade"	Trading	100	100
LLC "Sphera Invest"	Real Estate	100	100
LLC "Standard Invest"	Real Estate	100	100
LLC "M.video Finance"	Finance	100	100
LLC "M.video – Voronezh"	Trading	-	100
LLC "M.video – Ekaterinburg"	Trading	-	100
LLC "M.video – Kazan"	Trading	-	100
LLC "M.video – Krasnodar"	Trading	-	100
LLC "M.video – Nizhny Novgorod"	Trading	-	100
LLC "M.video – Oblast"	Trading	-	100
LLC "M.video – Perm"	Trading	-	100
LLC "M.video – Petersburg"	Trading	-	100
LLC "M.video – Rostov on Don"	Trading	-	100
LLC "M.video – Samara"	Trading	-	100
LLC "M.video – Saratov"	Trading	-	100
LLC "M.video – Ufa"	Trading	-	100
LLC "M.video – Center"	Trading	-	100

(In millions of Russian Rubles)

Name of subsidiary	Nature of business	Proportion of ownership interest and voting power held, % 2007	Proportion of ownership interest and voting power held, % 2006
LLC "M.video – Chelyabinsk"	Trading	-	100
LLC "Nivo"	Trading	-	100
LLC "Techno-smart"	Trading	-	100
LLC "Triumph MV"	Trading	-	100
LLC "Universopt"	Trading	-	100
LLC "Electrosteal"	Trading	-	100

The following entities were merged into LLC "M.video Management" during the year ended 31 December 2007:

LLC "M.video – Voronezh"
LLC "M.video – Ekaterinburg"
LLC "M.video – Kazan"
LLC "M.video – Krasnodar"
LLC "M.video – Nizhny Novgorod"
LLC "M.video – Oblast"
LLC "M.video – Perm"
LLC "M.video – Petersburg"
LLC "M.video – Rostov on Don"
LLC "M.video – Samara"
LLC "M.video – Saratov"
LLC "M.video – Ufa"
LLC "M.video – Center"
LLC "M.video – Chelyabinsk"
LLC "Techno-smart"
LLC "Triumph MV"

The following entities were closed during the year ended 31 December 2007:

LLC "Nivo"
LLC "Universopt"
LLC "Electrosteal"

Shareholders

As at 31 December 2007 and 2006 the registered shareholders of OJSC "Company M.video" and their respective ownership and voting interests were as follows:

	2007	2006
Svece Limited	69.9626%	99.597%
M.video Holding (Cyprus) Limited	0.8331%	0.402%
Various shareholders	29.2043%	-
Non-commercial partnership M.video	-	0.001%
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 AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the first time.

Basis of Preparation

The Group's transition date to IFRS was 1 January 2006. The disclosures required by IFRS 1 "First-time adoption of International Financial Reporting Standards" for the transition from Russian Accounting Standards to IFRS are provided in Note 35.

The consolidated financial statements have been prepared on a historical cost basis except for the valuation of financial instruments in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") and valuation of items of property, plant and equipment at the date of transition to IFRS to arrive at deemed cost as allowed by IFRS 1 (more fully described in Note 2).

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

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

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

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

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

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

Business and geographic segments – The Group has only one reportable business and geographic segment thus segment reporting information as required by IAS 14 "Segment Reporting" has not been provided.

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

Foreign currencies – The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in rubles ("RUB"), which is the functional currency of the Company and the subsidiaries and the presentation currency for the consolidated financial statements.

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

Exchange differences are recognized in profit or loss in the period in which they arise.

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

Major replacements or modernizations are capitalized and depreciated over their estimated useful lives. All other repair and maintenance expenditure is charged to the income statement during the financial period in which it is incurred.

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

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

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

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

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

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

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

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

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

Software licenses	5-10 years
Trade marks	5-10 years

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

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

<u>Current tax</u>

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

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

Financial assets – Investments are recognized and derecognized on a trade date, where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.
Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity investments', 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 2 above.

Held-to-maturity investments

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

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method less any impairment and bad debts. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Available for sale financial assets

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

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

Impairment of financial assets

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

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

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

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

Derecognition of financial assets

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

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instrument

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

Financial guarantee contract liabilities

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

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

Financial liabilities

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

Financial liabilities at FVTPL

Financial liabilities are classified at FVTPL where the financial liability is either held for trading or it is designated 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 at FVTPL upon initial recognition if:

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

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 2 above.

<u>Other financial liabilities</u>

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.

<u>Derecognition of financial liabilities</u>

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

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

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

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

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 Group has incurred various costs in issuing its own equity instruments. These costs include but are not limited to amounts paid to professional advisers, legal counsel, auditing fees, registration and other regulatory fees and printing costs. 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 related to sales is payable to tax authorities on the earliest of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against sales VAT upon receipt of the VAT invoice. Input VAT on construction in progress can be reclaimed on receipt of VAT invoices for the particular stage of work performed or, if the construction in progress project can not be broken down into stages, on receipt of VAT invoices upon completion of the contracted work.

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

Inventories – Inventories are recorded at the lower of average cost or net realizable value. In-bound freight related costs from our suppliers are included as part of the net cost of merchandise inventories. Certain supplier bonuses that are not reimbursement of specific, incremental and identifiable costs to promote a supplier's products are also included in the cost of inventory. Other costs associated with storing and transporting merchandise inventories to our retail stores are expensed as incurred and included as part of selling, general and administrative expenses.

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

Cash and cash equivalents – Cash and cash equivalents comprise cash at banks, in transit and on hand in stores and short term deposits with an original maturity of three months or less.

Borrowing costs – Borrowing costs are recognized in the income statement in the period in which they are incurred.

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

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

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

Warranties

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

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

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

Sale of goods

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

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

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

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

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

Additional service agreements

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

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

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

Revenue from services

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

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

Agents

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

Gift cards

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

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

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

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

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

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

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

3. CHANGES IN IFRS STANDARDS AND THEIR ADOPTION BY THE GROUP

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 2007, but are not yet effective and will be mandatory for adoption in the Group’s financial statements for periods ending after 31 December 2007:

- IAS 1 (revised) “Presentation of Financial Statements” effective for annual periods beginning on or after 1 January 2009. The revision requires separate presentation of owner and non-owner changes in equity by introducing the statement of comprehensive income. The statement of recognized income and expense will no longer be presented. Whenever there is a restatement or reclassification, an additional balance sheet, as at the beginning of the earliest period presented, will be required to be published. There will be no effect on the Group’s reported income or net assets.
- IAS 23 (revised) “Borrowing costs” effective for annual periods beginning on or after 1 January 2009. The revision to IAS 23 removes the option of immediately recognizing as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is one that takes a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize such borrowing costs as part of the cost of the asset. Currently, borrowing costs are recognized by the Group as an expense when incurred. The Group has significant borrowing costs and is currently evaluating the potential impact of IAS 23 (revised) on the financial statements presentation.
- IAS 27 (revised) “Consolidated and Separate Financial Statements” effective for annual periods beginning on or after 1 July 2009 and are to be applied retrospectively, with certain exceptions. The revision requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. Such transactions will no longer result in goodwill or gains or losses. When control is lost, any remaining interest in the entity is remeasured to fair value and a gain or loss recognized in profit or loss. The Group has not yet completed its evaluation of the effect of adopting this amendment.
- IAS 32 (revised) “Financial Instruments: Presentation” and IAS 1 (revised) “Presentation of Financial Statements” – Puttable Financial Instruments and Obligations Arising on Liquidation – effective for periods beginning on or after 1 January 2009. The revised standard requires entities to classify as equity certain financial instruments provided certain criteria are met. The instruments to be classified as equity are puttable financial instruments and those instruments that impose an obligation on the entity to deliver to another party a pro rata share of the net assets of the entity only on liquidation. The Group has not yet completed its evaluation of the effect of adopting these amendments.
- IFRS 2 (revised) “Share-based Payment” effective for annual periods beginning on or after 1 January 2009. The revision was issued in January 2008, and clarifies that only service conditions and performance conditions are vesting conditions, and other features of a share-based payment are not vesting conditions. In addition, it specifies that all cancellations, whether by the entity or other parties, should receive the same accounting treatment. The Group has not yet completed its evaluation of the effect of adopting this amendment.
- IFRS 3 (revised) “Business combinations”. The revised standard still requires the purchase method of accounting to be applied to business combinations but will introduce some changes to existing accounting treatment. For example, contingent consideration should be measured at fair value at the date of acquisition and subsequently remeasured to fair value with changes recognized in profit or loss. Goodwill may be calculated based on the parent’s share of net assets or it may include goodwill relating to the minority interest. All transaction costs will be expensed. Business combinations occurring before the date of adoption by the Group will not be restated and thus there will be no effect on the Group’s reported income or net assets on adoption.

- IFRS 8 "Operating segments" effective for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. This standard will supersede IAS 14 "Segment Reporting". Management expects that adoption of this standard will result in additional disclosure of segmented information.
- "Improvements to International Financial Reporting Standards 2008" issued in May 2008 introduces minor amendments to various existing standards. These amendments are effective for annual periods beginning on or after 1 January 2009. No significant changes are currently expected from the adoption of this pronouncement.
- IFRIC 11 "IFRS 2 – Group and treasury share transactions" effective for annual periods beginning on or after 1 March 2007. Management is currently assessing the impact of this interpretation but believes that this interpretation should not have a significant impact on the Group.
- IFRIC 12 "Service concession arrangements" effective for the annual periods beginning on or after 1 January 2008. Service concession arrangements are arrangements whereby a government or other body grants contracts for the supply of government services to private operators. Management believes that this interpretation is not relevant to the Group.
- IFRIC 13 "Customer loyalty programmes" effective for annual periods beginning on or after 1 July 2008. This interpretation addresses accounting by entities that grant loyalty award credits to customers who buy other goods and services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services to customers who redeem award credits. Management is currently assessing the impact of this interpretation but believes that this interpretation should not have a significant impact on the Group.
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" effective for annual periods beginning on or after 1 January 2008. This interpretation will not be relevant to the Group as the Group does not currently have any long-term defined benefit obligation to its employees.
- IFRIC 15 "Agreements for the Construction of Real Estate" and IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" were issued in July 2008. These interpretations are not expected to have an impact on the financial statements of the Group.

4. 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 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, including, but not limited to, the uncertainties and ambiguities of the Russian legal and taxation systems and the difficulties in securing contractual rights as defined in contracts. Actual results may differ from these estimates.

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

Significant estimates and assumptions

Inventory valuation

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

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

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

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

Allowances for doubtful accounts receivable

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

Tax and customs provisions and contingencies

The Group is subject to various taxes arising in the Russian Federation. The majority of its merchandise is imported into Russia and is therefore subject to the Russian customs regulations. Significant judgment is required in determining the provision for income taxes and other taxes. The Group recognizes liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Refer to Note 33 for further discussion.

Recovery of deferred tax assets

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

Share-based payments

The cost of equity-settled transactions with employees is based on the Group's estimate of the number of equity instruments that will eventually vest and other estimates outlined in Note 30.

Useful life of property, plant and equipment

Trade equipment is depreciated over the estimated useful life specified in Note 2 above. The estimated useful life is adjusted when there is a plan to fully renovate the store in the near future, in which case carrying value of related trade equipment is depreciated over the period of time up to the planned renovation work. During the year ended 31 December 2007 the Group

Reassessment of useful lives of the trade equipment prompted by revised renovation plans, increased the consolidated depreciation expense during the current financial year by 22 million RUB

Critical judgments in applying the entity's accounting policies

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

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

In the absence of sufficient historical claims data during the year ended 31 December 2007 the Group was recognizing revenue from the sale of additional service agreements on a straight line basis over the life of each additional service agreement. As discussed further in Notes 31 (Related Parties) and 23, during the year ended 31 December 2007 the Group concluded an agreement with a related party services provider which assumed substantially all of the Group's obligations under all of the existing and future additional service agreements for a consideration based on a fixed proportion of fees charged to customers. As a result the Group immediately recognized previously deferred revenue relating to existing additional services. Revenue from sale of additional services agreements subsequent to entering into this arrangement is also recognized immediately upon sale as the Group does not expect to incur any expenses beyond the fees already paid to a related party service provider.

The fixed commission paid to a related party service centre to provide coverage for the Group's obligations under the additional service agreements is recognized immediately as part of cost of sales. Other direct costs associated with the sale of additional service agreements, such as sales bonuses paid to shop assistants are disclosed as part of selling, general and administrative expenses. These costs which were previously deferred and charged to the income statement over the life of the agreements, were fully recognized during the year ended 31 December 2007.

Supplier bonuses

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

(In millions of Russian Rubles)

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at 31 December 2007 and 2006 consisted of the following:

	Buildings	Leasehold improve-ments	Trade equipment	Security equipment	Other	Total
Cost						
As at 31 December 2005	-	63	267	115	191	636
Additions	2,205	464	143	82	198	3,092
Disposals	-	-	-	-	(9)	(9)
As at 31 December 2006	2,205	527	410	197	380	3,719
Additions	83	787	191	122	308	1,491
Disposals	-	-	-	-	-	-
As at 31 December 2007	2,288	1,314	601	319	688	5,210
Accumulated Depreciation						
As at 31 December 2005	-	-	-	-	-	-
Charge for the year	9	42	89	66	90	296
Disposals	-	-	-	-	(1)	(1)
As at 31 December 2006	9	42	89	66	89	295
Charge for the year	112	91	101	71	128	503
Disposals	-	-	-	-	-	-
As at 31 December 2007	121	133	190	137	217	798
Net Book Value						
As at 31 December 2006	**2,196**	**485**	**321**	**131**	**291**	**3,424**
As at 31 December 2007	**2,167**	**1,181**	**411**	**182**	**471**	**4,412**

As at 31 December 2007, property, plant and equipment with a carrying amount of 418 million RUB (31 December 2006: 320 million RUB) was collateralized against a portion of loans provided to the Group by banks (refer to Notes 17 and 22).

As at 31 December 2007, there were no commitments for the acquisition of property, plant or equipment (31 December 2006: nil).

During December 2006 the Group acquired a 100% interest in LLC "Sphera Invest" and LLC "Standard Invest" in exchange for 29,833 million ordinary shares issued by the Company. Prior to these acquisitions, these entities were under common control. The transactions were treated as acquisitions of assets. The total cost of property, plant and equipment acquired was 2,196 million RUB.

(In millions of Russian Rubles)

The net assets of LLC "Sphera Invest" and LLC "Standard Invest" as at the date of acquisition can be categorized as follows:

	RUB
Buildings	2,182
Security equipment	4
Other property, plant and equipment	10
	2,196
Other assets	190
Deferred tax liability	(370)
Other liabilities	(802)
Net assets	1,214
Consideration	(1,492)
Charged to equity	**(278)**

The number of shares issued for property, plant and equipment received was based on an external valuation report. The difference between the nominal value of the shares issued and the fair value of property and equipment and other related assets and liabilities acquired was treated as an adjustment to equity, net of tax effect.

6. INTANGIBLE ASSETS

Intangible assets as at 31 December 2007 and 2006 consisted of the following:

	Software licenses	**Trade marks**	**Total**
Cost			
As at 31 December 2005	17	-	17
Additions	17	3	20
Disposals	-	(1)	(1)
As at 31 December 2006	34	2	36
Additions	17	-	17
Disposals	-	(1)	(1)
As at 31 December 2007	51	1	52
Accumulated amortization			
As at 31 December 2005	-	-	-
Charge for the year	3	-	3
As at 31 December 2006	3	-	3
Charge for the year	20	-	20
As at 31 December 2007	23	-	23
Net Book Value			
As at 31 December 2006	**31**	**2**	**33**
As at 31 December 2007	**28**	**1**	**29**

Amortization expense has been included as part of selling, general and administrative expenses.

As at 31 December 2007 and 2006 the Group had commitments for the acquisition of software licenses. Refer to Note 33 for further details.

(In millions of Russian Rubles)

7. LONG TERM LOANS AND NOTES RECEIVABLE

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

	Interest rate %	Maturity	2007	2006
Promissory notes receivable from third parties	0%	October to December 2009	31	33
Less: provision for doubtful promissory notes receivable			(31)	-
Unsecured RUB loans given to third parties	2%	May 2010	5	3
Unsecured RUB loans given to related parties	0%		-	1
Total			**5**	**37**

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

The promissory note receivable from DVI Volga has been fully provided for.

For additional information relating to related party loans receivable refer to Note 31.

8. INVENTORIES

Inventories as at 31 December 2007 and 2006 consisted of the following:

	2007	2006
Goods for resale	11,032	7,682
Other inventories	132	13
Less: allowance for obsolete and slow moving goods	(977)	(734)
Total	**10,187**	**6,961**

For information relating to the cost of inventory recognized as an expense during the year ended 31 December 2007 and 2006 refer to Note 25.

As at 31 December 2007 the value of inventory pledged as collateral for borrowings from banks was 9,988 million RUB (31 December 2006: 5,001 million RUB).

(In millions of Russian Rubles)

9. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable as at 31 December 2007 and 2006 consisted of the following:

	2007	2006
Trade accounts receivable from third parties	165	709
Accounts receivable from related parties	-	1
Allowance for goods returns	(66)	(43)
Allowance for doubtful trade accounts receivable	(23)	-
Total	**76**	**667**

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

Ageing of past due but not impaired trade accounts receivable:

	2007	2006
30-60 days	3	5
60-90 days	-	9
90-120 days	9	-
120+ days	21	-
Total	**33**	**14**

Movement in the allowance for doubtful trade accounts receivable:

	2007	2006
Balance at the beginning of the year	-	-
Impairment losses recognized on accounts receivable	23	-
Amounts written off as uncollectible	-	-
Amounts recovered during the year	-	-
Impairment losses reversed	-	-
Balance as at end of the year	**23**	**-**

The Group did not have any individually significant impaired trade accounts receivable balances as at 31 December 2007.

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

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

(In millions of Russian Rubles)

10. OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

Other accounts receivable and prepaid expenses as at 31 December 2007 and 2006 consisted of the following:

	2007	2006
Advances paid to suppliers and prepaid expenses	1,284	756
Other accounts receivable from third parties	479	543
Other accounts receivable from related parties	31	13
Advances paid to related parties	-	1
Less: allowance for doubtful accounts	(36)	(6)
Total	**1,758**	**1,307**

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

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

	2007	2006
30-60 days	-	-
60-90 days	1	4
90-120 days	-	2
120+ days	45	26
Total	**46**	**32**

Movement in the allowance for doubtful accounts:

	2007	2006
Balance as at beginning of the year	6	-
Impairment losses recognized on other receivables	36	6
Amounts written off as uncollectible	-	-
Amounts recovered during the year	-	-
Impairment losses reversed	(6)	-
Balance as at end of the year	**36**	**6**

The receivable impaired as at 31 December 2007 was aged 120+ days (31 December 2006: 30-60 days).

11. VALUE ADDED TAX RECOVERABLE AND OTHER TAXES RECEIVABLE

Value added tax recoverable and other taxes receivable as at 31 December 2007 and 2006 consisted of the following:

	2007	2006
VAT recoverable	1,580	1,653
Other taxes receivable	10	13
Total	**1,590**	**1,666**

(In millions of Russian Rubles)

12. SHORT-TERM LOANS AND NOTES RECEIVABLE

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

	Interest rate %	Maturity	2007	2006
Promissory notes from third parties	0%	April 2008	12	72
Unsecured RUB loans given to related parties	(2006: 8%)		-	30
Unsecured RUB loans given to third parties	0%	February 2008	3	-
Total			**15**	**102**

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

For additional information relating to related party loans receivable refer to Note 31.

13. SHORT-TERM INVESTMENTS

Short term investments as at 31 December 2007 and 2006 consisted of the following:

	Interest rate	Maturity	2007	2006
Short term investment (bank)	8.8%	May 2008	750	-
Short term investment (bank)	9.1%	August 2008	540	-
Total			**1,290**	**-**

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2007 and 2006 consisted of the following:

	2007	2006
Petty cash and cash in stores	67	44
Cash at banks	632	140
Cash in transit	1,241	748
Short term deposits	440	-
Total	**2,380**	**932**

As at 31 December 2007 the fair value of cash and cash equivalents is equal to their carrying value.

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

(In millions of Russian Rubles)

15. ISSUED CAPITAL

Fully paid issued ordinary shares

As at 31 December 2006 the Company had 29,953,645,400 issued ordinary shares with a par value of 0.05 RUB per share.

As at 29 June 2007 the shareholders of OJSC “Company M.video” approved a reverse share split of 1:200. As at 19 September 2007 the Company registered this change with the appropriate governmental agencies and changed the charter and share registry from 29,953,645,400 shares at 0,05 RUB per share to 149,768,227 shares at 10 RUB per share.

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

The closing balance of issued ordinary shares as at 31 December 2007 was 179,768,227 at 10 RUB per share.

Authorized ordinary shares

As at 31 December 2006 the Company had 30,120,705,400 authorized ordinary shares with a par value of 0,05 RUB per share. As part of the reverse share split (as explained above), all previously authorized shares with a par value of 0,05 RUB per share were redeemed. Subsequent to this, fully paid issued ordinary shares were equal to the number of authorized ordinary shares. Authorized ordinary shares were reduced to 149,768,227.

As at 6 September 2007 the shareholders of OJSC “Company M.video” approved an additional 60,000,000 authorized ordinary shares at 10 RUB per share, of which 30,000,000 were issued as fully paid ordinary shares as at 1 November 2007. Changes in the charter were registered as at 19 September 2008.

The closing balance of authorized ordinary shares as at 31 December 2007 was 209,768,227 at 10 RUB per share.

Dividends

No dividends have been paid or declared by the Company during the year ended 31 December 2007 (31 December 2006 – nil).

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Company from accumulated undistributed and unreserved earnings as shown in the Company’s Russian statutory financial statements. OJSC “M.video” had 21 million RUB of undistributed and unreserved earnings as at 31 December 2007 (31 December 2006: 3 million RUB).

16. INCOME TAX

The Group’s income taxes for the years ended 31 December 2007 and 2006 was as follows:

	2007	2006
Current tax expense	(908)	(455)
Deferred tax benefit	321	117
Total income tax expense	**(587)**	**(338)**

(In millions of Russian Rubles)

The tax effect on the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2007 and 2006 is presented below:

	2007	2006
Deferred tax assets		
Difference in depreciable value of property, plant and equipment	37	35
Provision for obsolete and slow-moving inventory	235	176
Adjustment on unrealized profit	41	27
Warranty provision	-	2
Accrual for unused vacation	17	7
Provision for goods return	16	10
Deferred revenue	73	35
Fair market adjustment on forward exchange contract	-	4
Salary-related accruals	59	2
Adjustments on prepaid expenses	-	12
Write off of accounts receivable	7	5
Allowance for doubtful debt	22	-
Loss carry forward	5	29
Losses due to inventory shortages	74	-
Other adjustments	137	34
Total	**723**	**378**
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	358	394
Adjustment on supplier allowances and other adjustments on accounts payable	108	66
Deferred cost	-	4
Other adjustments	41	6
Total	**507**	**470**

The Group has tax losses (refer to table above) that are available indefinitely for offset against future taxable profits of the companies in which they arose. Deferred tax assets have been recognized in respect of these losses as they have arisen in subsidiaries that are expected to be profitable in future periods.

The statutory tax rate effective in the Russian Federation during years 2007 and 2006 was 24%. The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the net income before income tax. Below is a reconciliation of theoretical income tax expense at the statutory rate of 24% to the actual expense recorded in the Group’s income statement:

	2007	2006
Profit before income tax expense	1,236	736
Theoretical income tax expense at statutory rate of 24%	(296)	(177)
Adjustments due to:		
Non-deductible expenses, net	(231)	(129)
Income tax provisions	(55)	(32)
Income tax expense on dividends (9%)	(5)	-
Income tax expense	**(587)**	**(338)**

(In millions of Russian Rubles)

Taxable temporary differences in relation to investments in subsidiaries for which deferred tax liabilities have not been recognized as at 31 December 2007 amounted to 344 million RUB (31 December 2006: 454 million RUB).

17. LONG-TERM LOANS AND BORROWINGS

Long-term loans and borrowings as at 31 December 2007 and 2006 consisted of the following:

	Interest rate	Maturity	2007	2006
Secured third parties loans (banks)	EURIBOR (1m) and (3m) + 2.74% to 4.5%	January to March 2009	2,127	2,053
Total			**2,127**	**2,053**

The loans and borrowings have been secured by the Group's property, plant and equipment and inventory (refer to Notes 5 and 8).

18. BONDS PAYABLE

Bonds payable as at 31 December 2007 and 2006 consisted of the following:

	2007	2006
Corporate bonds	**118**	**2,000**

In November 2006 the Group issued RUB denominated non-collateralized bonds. The maximum term of these bonds is 3 years with the maturity being 18 November 2009. The coupon interest rate paid on the bonds was fixed at 10% for the first year only, after which the Group set a new coupon interest rate. After the setting of the revised coupon rate, the bondholders have the option to either retain or redeem bonds held. As at 18 November 2007 the coupon interest rate was set at 9.5% for a period of 12 months. The par value of individual bonds is 1,000 RUB.

19. TRADE ACCOUNTS PAYABLE

Trade accounts payable as at 31 December 2007 and 2006 consisted of the following:

	2007	2006
Trade accounts payable to third parties	9,109	5,723
Trade accounts payable to related parties	67	86
Total	**9,176**	**5,809**

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

For terms and conditions relating to related party payables refer to Note 31.

(In millions of Russian Rubles)

20. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as at 31 December 2007 and 2006 consisted of the following:

	2007	2006
Accrued salaries and bonuses	239	55
Accounts payable for property, plant and equipment	213	42
Accrued unused vacation	70	30
Other accrued expenses	44	16
Other current liabilities to related parties	20	10
Other current liabilities to third parties	13	97
Bond coupon yield payable	1	21
Interest payable to related parties	-	118
Interest payable to third parties	-	2
Total	**600**	**391**

Interest is settled periodically depending on the terms of the loan agreement.

Interest payable on the Bonds is settled semi-annually (refer to Note 18).

21. VALUE ADDED TAX AND OTHER TAXES PAYABLE

Taxes payable as at 31 December 2007 and 2006 consisted of the following:

	2007	2006
VAT payable	18	102
Other taxes payable	80	53
Total	**98**	**155**

22. SHORT-TERM LOANS AND BORROWINGS

Short-term loans and borrowings as at 31 December 2007 and 2006 consisted of the following:

	Interest rate %	2007	2006
Unsecured bank overdraft – RUB	(2006: 8%)	-	31
Loans from banks			
Secured loan (RUB)	(2006: 7.5% to 7.6%)	-	1,552
Secured loan (USD)	8% to 8.5%	1,963	-
Secured loan (EUR)	7.39% to 7.84%	602	-
Total short-term loans from third parties		**2,565**	**1,552**
Unsecured RUB loans from related parties	(2006: 11% to 15%)	-	1,402
Total		**2,565**	**2,985**

The secured loans referred to in the table above have been secured by the Group's property, plant and equipment and inventory (refer to Notes 5 and 8).

For additional information relating to related party loans payable refer to Note 31.

(In millions of Russian Rubles)

23. PROVISIONS

	Non-current		Current	
	2007	**2006**	**2007**	**2006**
Warranty provision – in respect of additional service agreements (ASA) (i)	162	-	-	-
Warranty provision – repair of goods (ii)	3	3	7	7
Total	**165**	**3**	**7**	**7**

The movement in provisions during the year is represented as follows:

	Warranty – ASA -	Warranty – Repair of goods
Balance as at 1 January 2007	-	10
Additional provisions recognized	162	-
Balance as at 31 December 2007	**162**	**10**

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

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

24. REVENUE

Revenue for the years ended 31 December 2007 and 2006 consisted of the following:

	2007	**2006**
Retail revenue (including internet)	48,410	31,417
Wholesale revenue	3,900	4,831
Other	7	10
Total	**52,317**	**36,258**

An amount of 15 million RUB relating to revenue from the sale of additional service agreements, and disclosed as "Other" revenue for the year ended 31 December 2006 has been reclassified as "Retail revenue" for comparative purposes. Revenue from the sale of additional service agreements is derived through the Group's retail network, and should be disclosed as retail revenue accordingly.

(In millions of Russian Rubles)

25. COST OF SALES

Cost of sales for the years ended 31 December 2007 and 2006 consisted of the following:

	2007	2006
Cost of goods and services	41,544	29,593
Inventory losses	401	192
Change in provision for obsolete and slow moving inventory	243	206
Supplier bonuses	(2,235)	(1,558)
Total	**39,953**	**28,433**

An amount of 209 million RUB relating to income from supplier advertising disclosed as other operating income for the year ended 31 December 2006 has been reclassified to cost of sales. This reclassification has increased the amount of "supplier bonuses" and reduced total cost of sales above. As stated in Note 2, all supplier bonuses are treated as volume bonuses unless they are subject to a separate agreement which is specific, incremental and identifiable. The 209 million RUB relating to income from supplier advertising was volume related.

26. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2007 and 2006 consisted of the following:

	2007	2006
Payroll and related taxes	3,058	1,630
Lease expenses	1,940	1,351
Advertising and promotional expenses	1,646	1,281
Transportation	1,131	559
Warehouse services	794	428
Depreciation and amortization	524	299
Security	295	125
Service centre	247	146
Utilities expense	222	165
Bank charges	189	92
Repairs and maintenance	184	155
Consulting services	162	77
Packaging and raw materials	153	41
Travel	96	59
Communication	91	54
Taxes other than income tax	56	17
Bad debt expense	53	6
Training and recruitment	50	37
Office expenses	49	51
Insurance	43	23
Legal and audit expenses	24	37
Commissions	-	8
Other	125	47
Total	**11,132**	**6,688**

(In millions of Russian Rubles)

Payroll and related taxes includes a 244 million RUB contribution to the state pension plan (31 December 2006:146 million RUB) and social and medical insurance in the amount of 218 million RUB (31 December 2006: 138 million RUB).

27. OTHER OPERATING INCOME

Other income includes commissions received from banks on loans provided to customers, goods delivery and other individually insignificant items.

28. OTHER OPERATING EXPENSES

Other operating expenses for the year ended 31 December 2007 mainly consisted of a provision for doubtful loan receivables in the amount of 31 million RUB (31 December 2006: nil), foreign currency losses in the amount of 28 million RUB (31 December 2006: 18 million RUB) and other individually insignificant items.

29. FINANCE COSTS, NET

Finance costs for the years ended 31 December 2007 and 2006 consisted of the following:

	2007	2006
Interest on bank loans	505	187
Coupon yield on corporate bonds	171	21
Loss on realized forward contracts	53	-
Interest on non-bank loans	78	118
Other	-	70
Change in fair value of forward contracts	(31)	15
Total	**776**	**411**

30. SHARE-BASED PAYMENTS

Employee share option plan

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

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

(In millions of Russian Rubles)

The number of options granted per employee has been determined by the Chief Executive Officer and approved by the Board of Directors.

The following share-based payment arrangements were in existence during the current reporting period:

Option series	Number	Grant date	Vesting date	Expiry date	Exercise price (RUB)	Fair value at grant date (RUB)
Issued 1 October 2007	207,500	1 October 2007	1 April 2008	30 April 2008	10	163.92
Issued 1 October 2007	207,500	1 October 2007	1 April 2009	30 April 2009	10	164.67
Issued 1 October 2007	207,500	1 October 2007	1 April 2010	30 April 2010	10	165.66

No share-based payments arrangements were in existence during the comparative reporting period.

The weighted average fair value of the share options granted during year ended 31 December 2007 is 164.75 RUB (2006: Not applicable). 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 draw upon a variety of external sources to aid in the determination of the appropriate data to use in such situations.

Inputs into the model	Series 1	Series 2	Series 3
Grant date share price	173.40	173.40	173.40
Exercise price	10	10	10
Expected volatility	20.68%	20.68%	20.68%
Option life (years)	0.50	1.50	2.50
Dividend yield	0%	0%	0%
Risk-free interest rate	10%	10%	10%

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

The following reconciles the outstanding share options granted under the employee share plan at the beginning and end of the financial year 2007:

	Number of options	Weighted average exercise price (RUB)
Balance at the beginning of financial year	-	-
Granted during the financial year	622,500	10
Forfeited during the financial year	-	-
Exercised during the financial year	-	-
Expired during the financial year	-	-
Balance at the end of the financial year	622,500	10
Exercisable at the end of the financial year	-	-

(In millions of Russian Rubles)

An expense of 26 million RUB has been recognized during the year ended 31 December 2007 in respect of share-based payments (31 December 2006: nil). This expense relates to equity-settled share-based payments. The expense has been disclosed within selling, general and administrative expense in the line item "payroll and related taxes" (Note 26). The corresponding entry has been reflected within retained earnings.

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

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

Balance at the end of the financial year

The share options outstanding at the end of the financial year 2007 have an exercise price of 10 RUB (2006: Not applicable), and the weighted average remaining contractual life is 486 days (2006: Not applicable).

31. RELATED PARTIES

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

The consolidated financial statements include the financial statements of OJSC "Company M.video" and its subsidiaries which are listed in Note 1 "General Information".

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 2007 and 2006, also refer to Notes 7, 9, 10, 12, 19, 20, 22):

Sales/purchases from related party	2007	2007	31 December 2007		2006	2006	31 December 2006	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Entities under common control								
LLC "Sphera Invest"	-	-	-	-	-	89	-	-
LLC "Standard Invest"	-	-	-	-	1	72	-	-
LLC "ElectroAreal"	-	-	-	-	-	(2)	12	-
LLC "KMV"	-	-		-	-	18	-	80
LLC "Olga-Alternativa"	-	12	-	-	-	2	-	1
LLC "Anzhela"	-	-	-	-	-	5	1	-
LLC "Polet-ZM"	-	-	-	-	-	1	-	26
LLC "Bars"	-	15	-	-	-	19	-	-
LLC "Private Security Agency Bars-SB"	1	100	3	-	-	35	-	-
LLC "Noviy Format"	-	25	-	-	-	21	2	-
Transservice Group of Companies, LLC Technovideo Service, LLC "Transservice-95"	21	195	28	-	16	77	3	2
LLC "Transfert"	-	-	-	-	-	1	-	-
LLC "Avtoritet"	-	36	-	-	-	8	-	-
LLC "Avto-Express"	-	125	-	10	-	65	-	6
LLC "PSK Logistic Service"	-	1,379	-	10	-	717	-	-
LLC "TIC BE Sokol"	-	-	-	-	-	118	-	-
LLC Universal Service	-	91	-	67	-	-	-	-

(In millions of Russian Rubles)

Loans from/to related party	2007		31 December 2007		2006		31 December 2006	
	Interest income	Interest expense	Amounts owed by related parties	Amounts owed to related parties	Interest income	Interest expense	Amounts owed by related parties	Amounts owed to related parties
Entities under common control:								
Goodhall Ltd	-	45	-	-	-	88	-	891
Velga Ltd	-	33	-	-	-	3	-	630
LLC "Noviy Format"	2	-	-	-	-	-	25	-
LLC "Avto-Express"	-	-	-	-	-	-	2	-

The ultimate shareholder

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

There were no transactions between the Group and the ultimate parent during the year ended 31 December 2007.

Immediate parent entity

Svece Ltd owns 69.9626% of the ordinary shares of OJSC "Company M.video".

Refer to Notes 1 and 30.

Terms and conditions of transactions with related parties

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Outstanding balances at the year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party accounts receivable or payables. For the year ended 31 December 2007, the Group has not recorded any impairment of accounts receivable relating to amounts owed by related parties (2006: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Transactions with other related parties

The nature of transactions with related parties is as follows:

- LLC "Sphera Invest" – rented property to the Group up to the time the properties were purchased by the Group;
- LLC "Standard Invest" – rented property to the Group up to the time the properties were purchased by the Group;
- LLC "ElectroAreal" – the Group acquired inventory held as at 1 January 2006 from this entity;
- LLC "KMV", LLC "Anzhela", LLC "Polet ZM"- relates to the purchase of properties by LLC "Sphera Invest" and LLC "Standard Invest";
- LLC "Olga Alternativa" – for the period ended 31 December 2006, the transaction related to the purchase of property by LLC "Sphera Invest" and LLC "Standard Invest". For the period ended 31 December 2007, the transaction related to the purchase of leasehold improvements;
- LLC "Bars" – provided courier services to the Group;
- LLC "Private Security Agency Bars – SB" – provided store and head office security services;

(In millions of Russian Rubles)

- LLC “Noviy Format” – for the period ended 31 December 2006, the transaction related to the purchase of property by LLC “Sphera Invest” and LLC “Standard Invest”. For the period ended 31 December 2007, the transaction related to rental of property;
- Transservice Group of Companies, LLC Technovideo service, LLC “Transservice 95” – provided after sale and other servicing of the Group’s merchandise;
- LLC “Transfert” – provided logistics and home delivery services;
- LLC “Avtoritet” – provided the brand name “Smart-on” to the Group under a license agreement and two trading premises in Moscow under a lease agreement;
- LLC “Avto-Express” – provided a car leasing service to the Group and logistic services;
- LLC “PSK Logistics service” – is a merchanize supplier for the Group;
- LLC “TIC BE Sokol” – relates to the sale of private label merchandise to the Group;
- LLC Universal Service – provided after sale servicing and other related servicing of merchandize sold in connection with additional service agreements;
- Goodhall Ltd – provided financing to the Group;
- Velga Ltd – provided financing to the Group.

Compensation of key management personnel of the Group

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

	2007	2006
Short term benefits*	116	62
Share-based payments	13	-
Total	**129**	**62**

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

During March 2007, the Group formed a Board of Directors. The number of key management positions increased from 11 in 2006 to 15 in 2007 due to the appointment of four independent directors.

The Group did not provide any post employment, termination, or other long-term benefits to key management personnel during the period other than contributions to state pension fund and the social funds as a part of payments of unified social tax on salaries and bonuses. Unified social tax paid relating to compensation of key management personnel amounted to 3 million RUB and 2 million RUB respectively for the years ended 31 December 2007 and 2006 and is included in the amounts stated above.

(In millions of Russian Rubles)

32. OPERATING LEASE ARRANGEMENTS

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

Payments recognized as an expense

	2007	2006
Minimum lease payments	1,930	1,351
Contingent rentals	10	-
	1,940	**1,351**

Non-cancellable operating lease commitments

Future minimum rentals payable under non-cancelable operating leases for premises occupied as at 31 December 2007 and 2006 are as follows:

	2007	2006
Within one year	2,320	1,511
After one year but not more than five years	7,212	4,450
More than five years	5,751	3,728
	15,283	**9,689**

Future minimum rentals payable under committed, non-cancelable future store operating leases for premises as at 31 December 2007 and 2006 are as follows:

	2007	2006
Within one year	439	60
After one year but not more than five years	1,998	901
More than five years	2,527	1,466
	4,964	**2,427**

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

33. COMMITMENTS AND CONTINGENCIES

Taxation and regulatory environment

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

Management reviews the Group's compliance with applicable tax regulations and current interpretations. Furthermore, management regularly assesses the potential financial exposure relating to tax contingencies for which the 3 year tax inspection right has expired but, which, under certain circumstances, may be challenged by regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of such open tax positions may exist. Management has recorded a provision of 87 million RUB (31 December 2006: 32 million RUB) for income tax and 7 million RUB (31 December 2006: nil) for other tax contingencies in these consolidated financial statements as their best estimate of potential liabilities arising from such contingencies as at 31 December 2007. No tax provisions were utilized during the year ended 31 December 2007.

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

Tax liabilities from inter-company transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of such challenge cannot be reliably estimated, however, it may be significant to the financial condition and operations of the Group.

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

Customs

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

(In millions of Russian Rubles)

Subject to the above, during the year ended 31 December 2007, the Group purchased a significant portion of its foreign manufactured goods on the territory of the Russian Federation from Russian legal entities, including Russian wholesalers or resellers, which may or may not have imported the goods into Russia directly. As the Group was not involved in clearing customs for the goods purchased on the territory of Russia, management can not be certain that the entities which imported the goods into Russia were in full compliance with the applicable regulations of the Russian customs code. During the year the relative proportion of direct imports from foreign manufacturers and purchases from the Russian subsidiaries of foreign manufacturers has been increasing and the purchases from Russian wholesalers and resellers decreasing.

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

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

License Agreements

As at 31 December 2007, the Group had a total commitment of approximately 10 million RUB in respect of SAP licenses and software support. This amount covers financial years up to and including 2012, which approximates 2 million RUB per annum. The Group uses SAP software for finance and human resources.

Further, as at 31 December 2007, the Group had finished the second year of a five year contract with Microsoft for Microsoft Office software right. The contract is structured in a way that allows the Group to prepay one year at a time. The total commitment for the remainder of the contract, including license fees and annual support, is 34 million RUB. The total commitment is split as follows:

2008 FY	10 million RUB
2009 FY	11 million RUB
2010 FY	13 million RUB

Litigation

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

Environmental matters

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

Guarantees

The Group had no outstanding guarantees as at 31 December 2007 (2006: 69 million RUB).

As at 31 December 2006 the Group had guaranteed to an unrelated party the performance of a contract in respect of the supply of goods, entered into by a related party, to a maximum amount of 69 million RUB.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below:

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from 2006.

The capital structure of the Group consists of debt, which includes borrowings (Notes 17 and 22), cash and cash equivalents (Note 14) and equity attributable to equity holders of the parent, comprising issued capital, additional paid in capital and retained earnings.

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

In accordance with one of the Group's bank covenants, the Group's capital ratio, defined as total equity divided by total assets should not decrease by more than 15%. This ratio is calculated based on statutory financial statements.

(In millions of Russian Rubles)

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 financial statements.

Categories of financial instruments

	31/12/2007	31/12/2006
Financial assets		
Fair value through profit or loss (FVTPL)		
Held for trading	32	-
Loans and receivables (including cash and cash equivalents)	5,872	3,968
Available for sale financial assets	-	28
Financial liabilities		
Fair value through profit or loss (FVTPL)		
Held for trading	16	15
Amortized cost	14,795	13,735

Foreign currency risk management

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

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

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities (including fair value of the Group's forward contracts) at the reporting date are as follows:

	Liabilities		Assets	
	2007	2006	2007	2006
USD	2,810	934	43	106
EUR	3,899	2,641	48	-

(In millions of Russian Rubles)

Foreign currency sensitivity analysis

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

The following table details the Group's sensitivity to a 10% increase and decrease in the RUB against the relevant foreign currencies. The sensitivity analysis includes outstanding foreign currency denominated monetary items plus the fair value of the Group's forward contracts and adjusts their translation at the year end for a 10% change in foreign currency rates. The analysis includes external loans. A positive number below indicates an increase in profit where the RUB strengthens 10% against the relevant currency. For a 10% weakening of the RUB against the relevant currency, there would be an equal and opposite impact on profit, and the balances below would be negative.

	USD impact		**EUR impact**	
	2007	**2006**	**2007**	**2006**
Profit or loss	274	83	390	263

The profit or loss impact disclosed in the table above is mainly attributable to the exposure outstanding on borrowings and trade payables at year end.

Forward foreign exchange contracts

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

	Foreign currency		**Contract value**		**Fair value**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Buy USD	80	-	2,015	-	(32)	-
Buy EUR	74	59	2,643	2,118	48	(15)

Interest rate risk management

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term obligations with floating interest rates.

There is also a risk relating to short-term rates due to economic and political risks associated with working in the Russian Federation with predominantly Russian banks who borrow on international markets.

(In millions of Russian Rubles)

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

31 December 2007	**Within 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**More than 5 years**	**Total**
Floating rate							
EURIBOR (1m) and 3m+2.74% to 4.5%							
7.39% to 9.5%							
Secured bank loans	2,683	2,127	-	-	-	-	**4,810**

31 December 2006	**Within 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**More than 5 years**	**Total**
Floating rate							
EURIBOR (1m) and 3m+2.74% to 4.5% Secured bank loans	-	-	2,053	-	-	-	**2,053**

The following table demonstrates the sensitivity to a reasonably possible change in interest rates of the Group's profit before tax. The analysis below has been determined based on the exposure to interest rates for the Group's financial instruments at the balance sheet date assuming that year end debt levels are constant over the year. There is no impact on the Group's equity.

	Increase / decrease in basis points	**Annualized effect on profit before tax**
2007		
Changes in the floating interest rates	25	(5)
	50	(11)
	100	(21)
	(25)	5
	(50)	11
	(100)	21

	Increase / decrease in basis points	**Annualized effect on profit before tax**
2006		
Changes in the floating interest rates	25	(5)
	50	(10)
	100	(21)
	(25)	5
	(50)	10
	(100)	21

Additionally, the Group is exposed to changes in interest rates as and when it refinances its short-term borrowings (Notes 18 and 22), including resetting the interest rate payable on the corporate bonds during November 2008 as described in Note 18.

(In millions of Russian Rubles)

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group trades only with recognized, creditworthy third parties who are registered in the Russian Federation. It is the Group's policy that all customers who are granted credit terms have a history of purchases from the Group, employ individuals who are known to the Group and can demonstrate they have the financial resources to cover their limits. The Group also requires these customers to provide certain documents such as incorporation documents and financial statements.

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

As at 31 December 2007, the Group does not have significant credit risk exposure to any single counterparty in respect of trade accounts receivable. Concentration of credit risk in respect of trade accounts receivable did not exceed 5% of gross monetary assets at any time during the year.

The credit risk on liquid funds (refer table below) and derivative financial instruments is limited because counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The table below shows the balances of 4 major counterparties at balance sheet date:

			Carrying amount	
Counterparty	**Currency**	**Rating**	**2007**	**2006**
Gazprombank	RUB	BBB-	201	-
Renaissance Capital	RUB	BB-	102	87
Russian Standard Bank	RUB	BB-	57	61
Alfa Bank	RUB	BB	52	178

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

During the year ended 31 December 2006, the Group provided a financial guarantee on behalf of a related party (refer to Note 33). With respect to credit risk arising from the financial assets of the Group, the Group's exposure to credit risk was arising from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

As at 31 December 2006 there was one trade debtor owing to the Group 521 million RUB, representing 78% of the total balance. This related to sales to a wholesale customer made during December 2006. This was a one off transaction and the outstanding amount was collected in full during the first six months of 2007. There were no other concentrations of credit risk as at 31 December 2006.

Liquidity risk management

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

The Group's objective is to maintain a continuity of funding and flexibility through the use of bank overdrafts and bank loans. Each year the Group analyzes its funding needs and anticipated cashflows, so that it can determine its funding obligations. The seasonality of the business, the store expansion plan and the anticipated working capital requirements form the basis of the evaluation. The Group uses long-term instruments (loans and borrowings) to cover a significant proportion of the base liquidity needs. The Group uses short term loans and bank overdrafts to cover seasonality needs. Every quarter the Group updates its liquidity needs and secures facilities with several banks to ensure that the Group has a sufficient amount of approved undrawn borrowing facilities. As at 31 December 2007, the Group had available 11,178 million RUB (31 December 2006: 3,403 million RUB) of uncommitted standby borrowing facilities. The Group can formally apply for additional tranches of debt and the bank will provide additional funding provided all conditions precedent had been met. Additionally, if corporate bonds are not put for redemption until 2009, approximately 47% of the Group's debt will mature in more than one year from 31 December 2007.

(In millions of Russian Rubles)

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2007 and 2006 based on contractual undiscounted payments:

31 December 2007	**Less than 3 months**	**3-12 months**	**1-5 years**	**Total**
Interest bearing loans and borrowings	-	2,683	2,127	4,810
Trade accounts payable	9,176	-	-	9,176
Other accounts payable and accrued expenses	599	1	-	600
Forward exchange contract	16	-	-	16
Total	**9,791**	**2,684**	**2,127**	**14,602**

31 December 2006	**Less than 3 months**	**3-12 months**	**1-5 years**	**Total**
Interest bearing loans and borrowings	1,583	3,402	2,053	7,038
Trade accounts payable	5,809	-	-	5,809
Other accounts payable and accrued expenses	403	21	-	424
Forward exchange contract	-	-	15	15
Total	**7,795**	**3,423**	**2,068**	**13,286**

Fair value of financial instruments

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the financial statements approximate their fair values:

	Carrying amount		**Fair value**	
	2007	**2006**	**2007**	**2006**
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate borrowings	2,127	2,053	2,083	2,053

35. EFFECT OF FIRST-TIME ADOPTION OF IFRS

The first year of application of IFRS was 2006. The transition to IFRS was accounted for according to IFRS 1 "First-time Adoption of International Financial Reporting Standards". The date of transition to IFRS was 1 January 2006. The effect of transition from RAS to IFRS is as follows:

(In millions of Russian Rubles)

Reconciliation of shareholders' equity as at 31 December 2007 and 2006 and 1 January 2006:

	31 December 2007	31 December 2006	1 January 2006
Company's equity under RAS reported in standalone basis (unaudited)	**6,168**	**6**	**4**
Other consolidated entities' equity/(deficit) under RAS reported in standalone basis (unaudited)	**4,303**	**672**	**(90)**
Cumulative equity/(deficit) under RAS for all Group entities reported in standalone basis (unaudited)	**10,471**	**678**	**(86)**
IFRS adjustments:			
Consolidation of subsidiaries – eliminating entries	(2,058)	(345)	(8)
Provision for obsolete and slow moving inventory and adjustment on supplier bonuses	(860)	(595)	(528)
Adjustments to cost and depreciation of property, plant and equipment	(203)	21	(5)
Adjustments on amortization of intangible assets	(47)	(28)	-
Provision for doubtful accounts receivable	(93)	(9)	(4)
Provision on goods return	(66)	(42)	-
Expenses accrual	(595)	(35)	(10)
Deferred tax	530	209	161
Deferred revenue	(304)	(142)	-
Warranty provision	(10)	(10)	(7)
Recognition of forward	(37)	(15)	-
Adjustment on share capital	300	1,492	-
Additional paid in capital	(73)	-	-
Other adjustments	(316)	(84)	(35)
Total adjustments to shareholders' equity/(deficit)	**(3,832)**	**417**	**(436)**
Shareholders' equity/(deficit) in accordance with IFRS	**6,639**	**1,095**	**(522)**

Reconciliation of net income under RAS and IFRS for the year ended 31 December 2006 is as follows:

	2007	2006
Company's profit/(loss) under RAS reported on standalone basis (unaudited)	**22**	**(2)**
Other consolidated entities' profit under RAS reported on standalone basis (unaudited)	**2,070**	**756**
Cumulative profit under RAS for all Group entities reported on standalone basis (unaudited)	**2,092**	**754**
IFRS adjustments:		
Consolidation of subsidiaries	(225)	(286)
Depreciation/amortization of property, plant and equipment and intangible assets	(244)	(99)
Change in inventory obsolescence provision and adjustment of cost of inventory for supplier bonuses	(265)	161
Deferred tax	263	48
Deferred revenue	(163)	(142)
Change in provision for goods return	(23)	(42)
Deferred cost	(17)	17
Capitalization of leasehold improvements	-	88
Consolidation and other adjustments	(769)	(101)
Total adjustment to net income	**(1,443)**	**(356)**
Net profit in accordance with IFRS	**649**	**398**

36. EVENTS AFTER THE BALANCE SHEET DATE

(a) Long term incentive plan – Series one

During the period under review, 622,500 shares were granted (to vest in three tranches). Subsequent to the year ended 31 December 2007 and prior to the first vesting date (1 April 2008), 123,000 shares were forfeited. Of the remaining 499,500 granted shares, 166,500 shares which vested on 1 April 2008 (tranche one) were exercised.

(b) Long term incentive plan – Series two

On 31 March 2008, the Board of Directors approved the adoption of series two of the LTIP for selected members of the Group's management team. On 1 April 2008, 46 persons became members of the plan and 409,500 of the shares designated for the LTIP were committed. This allocation forms part of the initial 1,498,682 of the Company's existing shares which were set aside prior to the Initial Public Offering. Under the terms of series two of the LTIP, the vesting period is three (3) years with 33.33% of the shares to vest each April following the grant date. Participants are able to exercise their 33.33% entitlement within 30 days of each vesting period by paying 10 RUB per share to the operator of the program after the vesting date. The participant must be employed at the anniversary date to exercise his or her right unless the Board of Directors waives this condition.

(c) SAP commitment

On 19 May 2008, a group entity provided a guarantee in respect of SAP licensing and consulting services in the amount of 205 million RUB and 17–25 million RUB (467,000 EUR to 700,000 EUR) respectively. The amounts to be paid in respect of the guarantee relates to the usage of 2,500 SAP licenses for an indefinite period of time, and consulting services to be provided during the period 16 June 2008 to 12 September 2008. No amounts have been paid at the time of the issuance of the 31 December 2007 consolidated financial statements.