

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

**Interim Condensed Consolidated
Financial Information (Unaudited)**
Half-Year Ended 30 June 2011

OPEN JOINT STOCK COMPANY “COMPANY M.VIDEO” AND SUBSIDIARIES

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OPEN JOINT STOCK COMPANY “COMPANY M.VIDEO” AND SUBSIDIARIES

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2011 (UNAUDITED)

Management is responsible for the preparation of the interim condensed consolidated financial information that presents fairly the consolidated financial position of Open Joint Stock Company “Company M.video” and subsidiaries (the “Group”) as at 30 June 2011 and the consolidated results of its operations, changes in equity and cash flows for the half-year then ended, in compliance with International Accounting Standard 34 “Interim Financial Reporting”.

In preparing the interim condensed consolidated financial information, management is responsible for:

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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that disclose, with reasonable accuracy at any time, the consolidated financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial information of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with statutory legislation and accounting standards;
- 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 interim condensed consolidated financial information for the half-year ended 30 June 2011 was approved on 29 August 2011 on behalf of the Board of Directors by:



A. Tynkovan
President



C. Parks
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

To: Shareholders and Board of Directors of OJSC "Company M.video"

Introduction

We have reviewed the accompanying interim condensed consolidated balance sheet of Open Joint Stock Company "Company M.video" (the "Company") and subsidiaries (the "Group") as at 30 June 2011 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the half-year then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34.

DELOITTE & TOUCHE

Moscow
29 August 2011

OPEN JOINT STOCK COMPANY "COMPANY M.VIDEO" AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2011 (UNAUDITED) (in millions of Russian Rubles)

	Notes	30 June 2011	31 December 2010
NON-CURRENT ASSETS:			
Property, plant and equipment	3	7,653	7,417
Intangible assets	4	928	791
Advances paid for non-current assets		134	26
Deferred tax assets		1,502	1,501
Other non-current assets	5	593	503
Total non-current assets		10,810	10,238
CURRENT ASSETS:			
Inventories	6	16,721	20,751
Trade and other accounts receivable and prepaid expenses	7	838	1,048
Income tax receivable		292	-
Other taxes receivable	8	552	1,229
Cash and cash equivalents	9	2,582	7,183
Other current assets		235	246
Total current assets		21,220	30,457
TOTAL ASSETS		32,030	40,695
EQUITY:			
Share capital	10	1,798	1,798
Additional paid-in capital	10	4,576	4,576
Treasury shares	10	(588)	(588)
Retained earnings		4,398	4,279
Total equity		10,184	10,065
NON-CURRENT LIABILITIES:			
Deferred tax liabilities		432	327
Provisions	14	135	147
Total non-current liabilities		567	474
CURRENT LIABILITIES:			
Short-term loans and borrowings	11	951	-
Trade accounts payable		15,507	25,046
Other payables and accrued expenses	12	1,664	1,464
Advances received		891	893
Dividends payable	10	691	-
Income tax payable		65	559
Other taxes payable		434	209
Deferred revenue	13	789	1,685
Provisions	14	287	300
Total current liabilities		21,279	30,156
Total liabilities		21,846	30,630
TOTAL EQUITY AND LIABILITIES		32,030	40,695

The Notes on pages 7 to 19 form an integral part of this interim condensed consolidated financial information signed on behalf of the Board of Directors on 29 August 2011.



A. Tynkovan
President



C. Parks
Chief Financial Officer

OPEN JOINT STOCK COMPANY “COMPANY M.VIDEO” AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 30 JUNE 2011 (UNAUDITED) *(in millions of Russian Rubles, except earnings per share)*

	Notes	For the half-year ended	
		30 June 2011	30 June 2010
REVENUE	15	46,502	34,957
COST OF SALES	16	<u>(34,116)</u>	<u>(25,938)</u>
GROSS PROFIT		12,386	9,019
Selling, general and administrative expenses	17	(11,765)	(8,516)
Other operating income	18	575	361
Other operating expenses		<u>(55)</u>	<u>(42)</u>
OPERATING PROFIT		1,141	822
Finance income, net	19	<u>4</u>	<u>21</u>
PROFIT BEFORE INCOME TAX EXPENSE		1,145	843
INCOME TAX EXPENSE		<u>(379)</u>	<u>(325)</u>
NET PROFIT for the period, being TOTAL COMPREHENSIVE INCOME for the period		<u>766</u>	<u>518</u>
BASIC EARNINGS PER SHARE (in Russian Rubles)	20	4.33	2.88
DILUTED EARNINGS PER SHARE (in Russian Rubles)	20	4.26	2.88

The Notes on pages 7 to 19 form an integral part of this interim condensed consolidated financial information signed on behalf of the Board of Directors on 29 August 2011.



A. Tynkovan
President



C. Parks
Chief Financial Officer

OPEN JOINT STOCK COMPANY "COMPANY M.VIDEO" AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 30 JUNE 2011 (UNAUDITED) (in millions of Russian Rubles)

	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Total
Balance as at 1 January 2011	1,798	4,576	(588)	4,279	10,065
Total comprehensive income for the period	-	-	-	766	766
Dividends declared (Note 10)	-	-	-	(691)	(691)
Recognition of share-based payment for ordinary shares previously issued (Note 21)	-	-	-	44	44
Balance as at 30 June 2011	1,798	4,576	(588)	4,398	10,184
Balance as at 1 January 2010	1,798	4,576	-	2,385	8,759
Total comprehensive income for the period	-	-	-	518	518
Dividends declared	-	-	-	(413)	(413)
Recognition of share-based payment for ordinary shares previously issued (Note 21)	-	-	-	48	48
Balance as at 30 June 2010	1,798	4,576	-	2,538	8,912

The Notes on pages 7 to 19 form an integral part of this interim condensed consolidated financial information, signed on behalf of the Board of Directors on 29 August 2011.



A. Tynkovan
President




C. Parks
Chief Financial Officer


OPEN JOINT STOCK COMPANY "COMPANY M.VIDEO" AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 30 JUNE 2011 (UNAUDITED) (in millions of Russian Rubles)

	Notes	For the half-year ended	
		30 June 2011	30 June 2010
OPERATING ACTIVITIES:			
Total comprehensive income for the year		766	518
<i>Adjustments for:</i>			
Income tax expense recognized in statement of comprehensive income		379	325
Depreciation and amortization	17	765	613
Change in allowance for doubtful trade and other accounts receivable and prepaid expenses		(36)	(50)
Share-based payment	21	44	48
Change in allowance for obsolete and slow-moving inventories and inventory losses	16	335	392
Other non-cash reconciling items		80	(2)
Operating cash flows before movements in working capital		2,333	1,844
Decrease in inventories		3,650	1,262
Decrease in other taxes receivable		677	612
Decrease in trade accounts payable		(9,530)	(8,066)
Increase in other payables and accrued expenses		155	328
Decrease in deferred revenue		(896)	(429)
Increase in other taxes payable		225	15
Other changes in working capital		120	(9)
Cash used in operations		(3,266)	(4,443)
Income taxes paid		(1,061)	(632)
Interest paid		(21)	(13)
Net cash used in operating activities		(4,348)	(5,088)
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment		(1,020)	(1,020)
Purchase of intangible assets		(209)	(98)
Interest received		26	36
Net cash used in investing activities		(1,203)	(1,082)
FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		2,788	3,683
Repayment of borrowings		(1,838)	(2,222)
Net cash generated by financing activities		950	1,461
NET DECREASE IN CASH AND CASH EQUIVALENTS		(4,601)	(4,709)
CASH AND CASH EQUIVALENTS, at the beginning of the period		7,183	6,447
CASH AND CASH EQUIVALENTS, at the end of the period		2,582	1,738

The Notes on pages 7 to 19 form an integral part of this interim condensed consolidated financial information, signed on behalf of the Board of Directors on 29 August 2011.


A. Tynkovan
 President


C. Parks
 Chief Financial Officer

OPEN JOINT STOCK COMPANY “COMPANY M.VIDEO” AND SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2011 (UNAUDITED) *(in millions of Russian Rubles)*

1. GENERAL INFORMATION

The interim condensed consolidated financial information of OJSC “Company M.video” (the “Company”) and subsidiaries (the “Group”) for the half-year ended 30 June 2011 was authorized for issue in accordance with a resolution of the Board of Directors on 29 August 2011.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The annual consolidated financial statements of OJSC “Company M.video” and its subsidiaries are prepared in accordance with International Financial Reporting Standards (“IFRS”). This interim condensed consolidated financial information for the half-year ended 30 June 2011 has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”). The interim condensed consolidated financial information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2010.

The amounts in the interim condensed consolidated financial information are presented in Russian Rubles (“RUB”), which is the Company’s functional and presentation currency, unless expressly indicated otherwise.

Seasonality of operations

Generally, the Group’s revenue is subject to seasonal fluctuations with higher demand in the second half of the year. Business seasonality results from a combination of higher sales in holiday periods (for example, New Year) and certain costs such as depreciation, some general and administrative expenses that do not precisely follow sales trends. The timing of new store openings, cost associated with restructuring or assets impairments, if any, as well as general economic conditions, may also affect the Group’s future results.

Significant accounting policies

The accounting policies adopted during the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2010. The Group has adopted the following new or revised standards and interpretations issued by IASB and IFRIC effective for financial years beginning on or after 1 January 2011:

- Amendment to IFRS 1 “First – time Adoption of IFRSs” – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters;
- IAS 24 “Related Party Disclosures” (Revised);
- Amendment to IAS 32 “Financial Instruments: Presentation” – Classification of Rights Issues;
- Amendment to IFRIC 14 “Prepayments of Minimum Funding Requirements”;
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”;
- Improvements to IFRSs (May 2010).

The adoption of these new and revised standards and interpretations has not had an impact on this interim condensed consolidated financial information of the Group.

Income tax

Income tax in the interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

OPEN JOINT STOCK COMPANY “COMPANY M.VIDEO” AND SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2011 (UNAUDITED) (in millions of Russian Rubles)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

In the half-year period ended 30 June 2011 the Group changed presentation of certain items of income and expenses in order to enhance fair presentation of the annual consolidated financial statements and this interim condensed consolidated financial information. With this regard the Group made the following reclassifications to the prior period's amounts to conform to the presentation of the current reporting period:

	As previously reported	Reclassification	After reclassification	Comment
Consolidated Statement of Comprehensive Income for the half-year ended 30 June 2010				
Selling, general and administrative expenses	(8,580)	64	(8,516)	Reclassification of income from recovery of allowance for doubtful trade and other accounts receivable and prepaid expenses from “Other operating income” to “Selling, general and administrative expenses”
Other operating income	425	(64)	361	

3. PROPERTY, PLANT AND EQUIPMENT

During the half-year ended 30 June 2011 the Group incurred expenditures in the amount of 940 which is mostly represented by buildings in the amount of 195 (half-year ended 30 June 2010: 515), leasehold improvements in the amount of 258 (half-year ended 30 June 2010: 222) and trade equipment in the amount of 236 (half-year ended 30 June 2010: 65).

Assets with a net book value of 12 were disposed of by the Group during the half-year ended 30 June 2011 (half-year ended 30 June 2010: 20).

4. INTANGIBLE ASSETS

During the half-year ended 30 June 2011 the Group incurred expenditures in the total amount of 212 (half-year ended 30 June 2010: 98) which for the most part relate to implementation of additional functionality of the Group's ERP system SAP R/3.

5. OTHER NON-CURRENT ASSETS

Other non-current assets as at 30 June 2011 and 31 December 2010 consisted of the following:

	30 June 2011	31 December 2010
Long-term part of warranty asset – in respect of Additional Service Agreements (“ASA”, Note 14)	130	144
Long-term advances paid for rent	506	415
Long-term loans and notes receivable	22	13
Less: allowance for doubtful long-term advances paid for rent	(65)	(69)
Total	593	503

OPEN JOINT STOCK COMPANY “COMPANY M.VIDEO” AND SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2011 (UNAUDITED) (in millions of Russian Rubles)

6. INVENTORIES

Inventories as at 30 June 2011 and 31 December 2010 consisted of the following:

	<u>30 June 2011</u>	<u>31 December 2010</u>
Goods for resale	18,217	22,121
Other inventories	29	43
Less: allowance for obsolete and slow-moving inventories	<u>(1,525)</u>	<u>(1,413)</u>
Total	<u>16,721</u>	<u>20,751</u>

For information relating to the cost of inventory recognized as an expense during the half-year periods ended 30 June 2011 and 2010 refer to Note 16.

As at 30 June 2011 inventories with the carrying amount of 521 (31 December 2010: 2,007) were pledged as collateral under financial guarantee contracts entered into by the Group (Note 24).

7. TRADE AND OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

Trade and other accounts receivable and prepaid expenses as at 30 June 2011 and 31 December 2010 consisted of the following:

	<u>30 June 2011</u>	<u>31 December 2010</u>
Advances paid to suppliers and prepaid expenses	579	685
Other accounts receivable	487	613
Trade accounts receivable	20	28
Advances paid to related parties (Note 22)	9	9
Less: allowance for doubtful accounts receivable	<u>(257)</u>	<u>(287)</u>
Total	<u>838</u>	<u>1,048</u>

8. OTHER TAXES RECEIVABLE

Other taxes receivable as at 30 June 2011 and 31 December 2010 consisted of the following:

	<u>30 June 2011</u>	<u>31 December 2010</u>
VAT recoverable	552	1,199
Other taxes receivable	<u>-</u>	<u>30</u>
Total	<u>552</u>	<u>1,229</u>

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 30 June 2011 and 31 December 2010 consisted of the following:

	<u>30 June 2011</u>	<u>31 December 2010</u>
Short-term bank deposits	1,450	4,900
Cash at banks	813	1,257
Cash in transit	205	818
Petty cash and cash in stores	<u>114</u>	<u>208</u>
Total	<u>2,582</u>	<u>7,183</u>

Short-term bank deposits earn interest ranging from 5% to 5.5% per annum (31 December 2010: from 2.5% to 4.5% per annum).

OPEN JOINT STOCK COMPANY “COMPANY M.VIDEO” AND SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2011 (UNAUDITED) (in millions of Russian Rubles)

10. EQUITY

Share capital

At 30 June 2011 and 31 December 2010 the Company had the following number of authorized, issued and outstanding ordinary shares:

	<u>Outstanding ordinary shares</u>	<u>Issued ordinary shares</u>	<u>Authorized ordinary shares</u>
Balance as at 31 December 2009	179,768,227	179,768,227	209,768,227
Change in the period	-	-	-
Balance as at 30 June 2010	179,768,227	179,768,227	209,768,227
Shares buy back	(2,700,000)	-	-
Balance as at 31 December 2010	177,068,227	179,768,227	209,768,227
Change in the period	-	-	-
Balance as at 30 June 2011	177,068,227	179,768,227	209,768,227

Each share has par value of 10 RUB per share. During 2011 and 2010 there were no changes in the number of authorized and issued ordinary shares of the Company. All issued ordinary shares were fully paid. Number of outstanding ordinary shares reduced in 2010 as a result of shares buy-back.

Treasury shares

In September 2010 following the approval by the Board of Directors, the Group purchased 2,700,000 issued ordinary shares of the Company to be subsequently offered to the members of the LTIP Series 3 program (Note 21) in order to service the resulting subscription rights, for total cash consideration of 588. All 2,700,000 shares were held as treasury shares at cost as at 30 June 2011 and 31 December 2010.

Additional paid-in capital

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

Dividends declared

On 23 June 2011 the Annual General Meeting approved dividends of 3.90 RUB per share in respect of 2010. Dividends attributable to the treasury shares represented intragroup transaction and were eliminated in full for the purpose of this interim condensed consolidated financial information. After the approval, dividends payable to the holders of outstanding ordinary shares of the Company were included as a liability in this interim condensed consolidated information in the total amount 691.

11. SHORT-TERM LOANS AND BORROWINGS

Short-term loans and borrowings as at 30 June 2011 and 31 December 2010 consisted of the following:

	<u>Interest rate</u>	<u>30 June 2011</u>	<u>31 December 2010</u>
Unsecured third parties credit facilities (RUB)	7.00%	750	-
Unsecured third parties credit facilities (RUB)	6.55%	200	-
Total principal amount of short-term loans		950	-
Interest payable		1	-
Total		951	-

OPEN JOINT STOCK COMPANY “COMPANY M.VIDEO” AND SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2011 (UNAUDITED) (in millions of Russian Rubles)

11. SHORT-TERM LOANS AND BORROWINGS (CONTINUED)

Credit Bank of Moscow

The short-term debt to Credit Bank of Moscow (CBoM) is represented by loan received in June 2011 in the amount 750. The loan is denominated in RUB and matures in August 2011. Interest rate is 7.0% per annum. The loan is not secured by the Group’s inventory or property, plant and equipment.

Credit Europe Bank

The short-term debt to Credit Europe Bank is represented by short-term loan in the amount of 200 received in May 2011, being a part of the long-term credit line with a limit of 500. The loan matures in September 2011. Interest rate is 6.55% per annum. The credit line is not secured by the Group’s inventory or property, plant and equipment.

12. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as at 30 June 2011 and 31 December 2010 consisted of the following:

	30 June 2011	31 December 2010
Accounts payable and accruals for rent and utilities	491	593
Accounts payable and accruals for salaries and bonuses	400	407
Accrued unused vacation	127	111
Accounts payable for property, plant and equipment	101	72
Other current liabilities to related parties (Note 22)	80	56
Accounts payable and accruals for consulting fees	19	55
Other payables and accrued expenses	446	170
Total	1,664	1,464

13. DEFERRED REVENUE

Deferred revenue as at 30 June 2011 and 31 December 2010 consisted of the following:

	For the half-year ended 30 June 2011		For the year ended 31 December 2010	
	Customer loyalty program “M.video Bonus”	Other programs	Customer loyalty program “M.video Bonus”	Other programs
As at 1 January	1,074	611	522	572
Revenue deferred during the period	1,322	-	1,989	611
Revenue released to the consolidated statement of comprehensive income	(1,607)	(611)	(1,437)	(572)
As at the end of the period	789	-	1,074	611

Other programs represent primarily issue of gift cards to the Group’s customers.

OPEN JOINT STOCK COMPANY "COMPANY M.VIDEO" AND SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2011 (UNAUDITED) (in millions of Russian Rubles)

14. PROVISIONS

Provisions as at 30 June 2011 and 31 December 2010 consisted of the following:

	Non-current		Current	
	30 June 2011	31 December 2010	30 June 2011	31 December 2010
Warranty provision – in respect of ASA (Note 5)	130	144	229	234
Provision for goods return	-	-	49	59
Warranty provision – repair of goods	5	3	9	7
Total	135	147	287	300

15. REVENUE

Revenue for the half-year periods ended 30 June 2011 and 2010 consisted of the following:

	For the half-year ended	
	30 June 2011	30 June 2010
Retail revenue (including internet sales)	46,498	34,807
Wholesale revenue	-	124
Other	4	26
Total	46,502	34,957

Retail revenue includes sales of ASA certificates in the amount of 895 for the half-year ended 30 June 2011 (half-year ended 30 June 2010: 966).

16. COST OF SALES

Cost of sales for the half-year periods ended 30 June 2011 and 2010 consisted of the following:

	For the half-year ended	
	30 June 2011	30 June 2010
Cost of goods and services	33,781	25,546
Inventory losses from damaged goods and change in allowance for obsolete and slow-moving inventories	335	392
Total	34,116	25,938

OPEN JOINT STOCK COMPANY “COMPANY M.VIDEO” AND SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2011 (UNAUDITED) (in millions of Russian Rubles)

17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the half-year periods ended 30 June 2011 and 2010 consisted of the following:

	For the half-year ended	
	30 June 2011	30 June 2010
Payroll and related taxes	3,301	2,414
Lease expense, net of income from sublease	2,262	1,896
Advertising and promotional expenses, net	1,529	1,098
Transportation	1,009	544
Depreciation and amortization	765	613
Warehouse services, including related lease expenses	641	500
Utilities expense	545	372
Security	347	255
Repairs and maintenance	341	210
Bank charges	231	165
Taxes other than income tax	159	124
Other expenses	635	325
Total	11,765	8,516

Payroll and related taxes for the half-year ended 30 June 2011 include contribution to the state pension fund in the amount of 712 (half-year ended 30 June 2010: 336).

18. OTHER OPERATING INCOME

Other operating income for the half-year periods ended 30 June 2011 and 2010 includes commissions received from banks on loans provided to customers, goods delivery, income from leases, income earned from suppliers for advertising materials placed in the Group's stores, and other items.

19. FINANCE INCOME, NET

Finance income/(costs) for the half-year periods ended 30 June 2011 and 2010 consisted of the following:

	For the half-year ended	
	30 June 2011	30 June 2010
Interest income	26	36
Interest expense on bank loans	(22)	(15)
Total	4	21

20. EARNINGS PER SHARE

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

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

OPEN JOINT STOCK COMPANY “COMPANY M.VIDEO” AND SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2011 (UNAUDITED) (in millions of Russian Rubles)

20. EARNINGS PER SHARE (CONTINUED)

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

	For the half-year ended	
	30 June 2011	30 June 2010
Net profit attributable to equity holders of the Company	766	518
Weighted average number of ordinary share in issue (millions of shares)	177.07	179.77
Effect of share options granted to employees (millions of shares)	2.70	-
Basic earnings per share (in Russian rubles)	4.33	2.88
Weighted average number of ordinary shares for the purpose of diluted earnings per share (millions of shares)	179.77	179.77
Diluted earnings per share (in Russian rubles)	4.26	2.88

21. SHARE-BASED PAYMENTS

Employee share option plan

The Group had two share option schemes in operation during the half-year ended 30 June 2011, all of which are equity-settled schemes. During comparable period of the previous year, half-year ended 30 June 2010, the Group had three share option schemes in operation, one of which was completely settled in April 2010.

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

On 28 June 2007, as approved by the Board of Directors, 1,498,682 of the Company’s existing ordinary shares were set aside by the controlling shareholder for the purpose of the Group’s share option plan. In accordance with the provisions of the plan each employee share option allows the recipient to purchase one ordinary share of OJSC “Company M.video” from M.video Investment Ltd. (BVI). The proceeds from the purchase is payable to the existing shareholder. No amounts are paid or payable by the recipient on receipt of the option.

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

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

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

Long-term incentive plan Series 3 (“LTIP 3”)

On 9 December 2009 the Board of Directors approved the adoption of Series 3 of the LTIP for selected members of the Group’s management team. 56 persons became members of the plan and 3,170,000 of the shares were designated for LTIP 3. The shares will be granted by the Group to the participants of the plan at the appropriate vesting date provided that the participants are employed to exercise his or her right unless the Board of Directors waives this condition. Consideration given to this non-market vesting condition requires the management to estimate the number of shares that will eventually vest and to adjust accordingly the number of shares included in the measurement of the transaction amount. Based on existed accumulated data on staff turnover the management’s best estimate of the number of shares eventually expected to vest is 2,670,000 (2010: 2,670,000).

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21. SHARE-BASED PAYMENTS (CONTINUED)

Summary of the arrangements in existence as at 30 June 2011 and 31 December 2010

The following table contains details of the arrangements that were in existence as at 30 June 2011 and 31 December 2010:

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

Fair value of share options

The weighted average fair values of the share options granted under LTIP 2 and LTIP 3 and outstanding as at 30 June 2011 and 31 December 2010 are as follows (in RUB):

Option series	30 June 2011	31 December 2010
LTIP 2	-	170.39
LTIP 3	118.48	118.48

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

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

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

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21. SHARE-BASED PAYMENTS (CONTINUED)

Movements in share options during the period

The following reconciles the outstanding share options granted under the employee share plan at the beginning and end of the half-year period ended 30 June 2011 and 2010:

	LTIP 1		LTIP 2		LTIP 3	
	Number of options	Weighted average exercise price (RUB)	Number of options	Weighted average exercise price (RUB)	Number of options	Weighted average exercise price (RUB)
Balance as at 1 January 2010	93,500	10	284,000	10	2,670,000	-
Forfeited during the period	(2,000)	10	(12,000)	10	-	-
Exercised during the period	(91,500)	10	(136,000)	10	-	-
Balance as at 30 June 2010	-	-	136,000	10	2,670,000	-
Exercisable at the end of the period	-	-	-	-	-	-
Balance as at 1 January 2011	-	-	134,000	10	2,670,000	-
Exercised during the period	-	-	(134,000)	10	-	-
Balance as at 30 June 2011	-	-	-	10	2,670,000	-
Exercisable at the end of the period	-	-	-	-	-	-

The weighted average remaining contractual life of the share options granted under LTIP of all Series outstanding as at 30 June 2011 is 1,022 days (31 December 2010: 1,150 days).

Share-based payments expense

The summary of expenses recognized by the Group in respect of share-based payments in the half-year periods is as follows:

Option series	For the half-year ended	
	30 June 2011	30 June 2010
LTIP 1	-	1
LTIP 2	3	6
LTIP 3	41	41
	44	48

The above expense has been included into “Selling, general and administrative expenses” in the line item “Payroll and related taxes” (Note 17).

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22. RELATED PARTIES

Related parties include shareholders, key management, entities under common ownership and control, and entities over which the Group has significant influence. The following table provides the total amount of transactions, which have been entered into with related parties during the 6 months ended 30 June 2011 and 2010 and the outstanding balances owed by/to related parties as at 30 June 2011 and 31 December 2010, respectively:

	For the half-year ended 30 June 2011		For the half-year ended 30 June 2010		30 June 2011		31 December 2010	
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties	Amounts owed by related parties	Amounts owed to related parties
Entities under common control:								
LLC “Avto-Express”	-	44	-	36	-	9	-	5
LLC “Avtoritet”	-	32	-	35	-	-	3	7
LLC “Noviy Format”	-	26	-	26	-	-	-	-
Transservice Group of Companies	6	141	2	28	8	3	4	6
LLC “Universal service”	7	134	6	145	1	48	1	38
LLC “Private Security Agency Bars-SB”	1	111	1	82	-	20	1	-
	14	488	9	352	9	80	9	56

Compensation of key management personnel of the Group

The remuneration of directors and other members of key management during the half-year periods ended 30 June 2011 and 2010 was as follow:

	For the half-year ended	
	30 June 2011	30 June 2010
Short-term benefits*	110	71
Share-based payments	17	13
Total	127	84

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

As at 30 June 2011 the number of key management positions was 17 (31 December 2010: 17).

The Group did not provide any material post-employment, termination, or other long-term benefits to key management personnel during the period other than contributions to state pension fund and the social funds as a part of payments of social security contributions (“SSC”) on salaries and bonuses. SSC paid relating to compensation of key management personnel amounted to 1 for the half-year period ended 30 June 2011 (SSC paid in half-year ended 30 June 2010 was 1) and is included in the amounts stated above.

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23. OPERATING LEASE ARRANGEMENTS

Future minimum rentals payable under non-cancellable operating leases for premises occupied as at 30 June 2011 and 31 December 2010 are as follows:

	<u>30 June 2011</u>	<u>31 December 2010</u>
Within one year	4,570	4,416
After one year but not more than five years	16,090	16,043
More than five years	<u>10,242</u>	<u>11,107</u>
	<u>30,902</u>	<u>31,566</u>

Future minimum rentals payable under committed, non-cancellable future store operating leases for premises as at 30 June 2011 and 31 December 2010 are as follows:

	<u>30 June 2011</u>	<u>31 December 2010</u>
Within one year	430	201
After one year but not more than five years	1,526	1,643
More than five years	<u>2,294</u>	<u>2,400</u>
	<u>4,250</u>	<u>4,244</u>

Future minimum rental payments will be subject to VAT.

24. COMMITMENTS AND CONTINGENCIES

Operating environment

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2011 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery, there continues to be uncertainty regarding further economic growth, access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects. Although any further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable, the management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

License Agreements

As at 30 June 2011 the Group had a total commitment of approximately 1.2-1.4 million EUR per annum (or 48.46-56.54 mln RUB per annum as translated at the official exchange rate of the Central Bank of Russia, which was 40.3870 RUB/ EUR as at 30 June 2011), for technical support services with respect to existing SAP licenses and software during the period from 2011 to 2016. The Group uses SAP software for finance and human resources functions and supply chain management.

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24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Financial guarantees

In the normal course of its operating activity the Group from time-to-time enters into financial guarantee contracts with banks. Under these contracts the banks provide guarantees in favour of the Group's suppliers and the Group may be required to pay under those contracts only if it fails to make timely payments to its suppliers. As at 30 June 2011 the Group entered into such guarantee contracts for the total amount of 1,115 (31 December 2010: 3,078). The Group has pledged its inventories with the carrying amount of 521 (31 December 2010: 2,007) as collateral under these guarantee contracts.

25. EVENTS AFTER THE BALANCE SHEET DATE

As at the date when this interim condensed consolidated financial information was authorized for issue, no events after the balance sheet date have taken place that would require disclosure in the interim condensed consolidated financial information.