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

Independent Auditors’ Report

Interim Consolidated Financial Statements
Half-Year Ended 30 June 2007

OJSC "COMPANY M.VIDEO" AND SUBSIDIARIES

TABLE OF CONTENTS

	Pages
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS	1
INDEPENDENT AUDITORS' REPORT	2-3
INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2007:	
Interim consolidated Balance sheet	4-5
Interim consolidated Income statement	6
Interim consolidated Statement of changes in shareholders' equity	7
Interim consolidated Statement of cash flows	8
Notes to the interim consolidated financial statements	9-43

OJSC "COMPANY M.VIDEO" AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2007

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2 and 3, is made with a view of distinguishing the respective responsibilities of management and those of the independent auditors in relation to the interim consolidated financial statements of OJSC "Company M.video" and subsidiaries (the "Group").

Management is responsible for the preparation of the interim consolidated International Financial Reporting Standards ("IFRS") financial statements that present fairly the interim consolidated financial position of the Group as at 30 June 2007 and the interim consolidated results of its operations, cash flows and changes in shareholders' equity for the half-year then ended, in compliance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

In preparing the interim 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 IAS 34 has been followed, subject to any material departures disclosed and explained in the interim consolidated financial statements; and
- Preparing the interim 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 interim consolidated financial statements of the Group comply with IAS 34;
- 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 interim consolidated financial statements for the half-year ended 30 June 2007 were approved on 4 October 2007 by:

A. Tynkovan
Chief Executive Officer

C. Parks
Chief Financial Officer

Deloitte.

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INDEPENDENT AUDITORS' REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

We have audited the accompanying interim 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 30 June 2007, and the income statement, statement of changes in shareholders' equity and cash flow statement for the six-month period 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 Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). 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.

Auditors' 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 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 interim consolidated financial statements of the Group present fairly, in all material respects, the financial position of the Group as of 30 June 2007, and its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34.

Deloitte & Touche

4 October 2007

INTERIM CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2007
(in millions of Russian Rubles)

	Notes	30 June 2007	31 December 2006
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	6	3,710	3,424
Construction in process		29	35
Intangible assets	7	37	33
Long term loans and notes receivable	8	-	37
Deferred tax assets	16	536	378
Deferred costs		18	9
Advances paid for property, plant and equipment		3	14
Total non-current assets		**4,333**	**3,930**
CURRENT ASSETS:			
Available for sale investment at cost	33(b)	28	28
Inventories	9	7,917	6,961
Trade accounts receivable	10	157	667
Other accounts receivable and prepaid expenses	11	1,823	1,307
Value added tax recoverable and other taxes receivable	12	1,536	1,666
Income tax receivable		140	15
Short term loans and notes receivable	13	123	102
Deferred costs		22	8
Cash and cash equivalents	14	282	932
Total current assets		**12,028**	**11,686**
TOTAL ASSETS		**16,361**	**15,616**

INTERIM CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 30 JUNE 2007
(in millions of Russian Rubles)

	Notes	30 June 2007	31 December 2006
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY:			
Issued capital	15	1,498	1,498
Accumulated deficit		(562)	(403)
Total shareholders' equity		**936**	**1,095**
NON-CURRENT LIABILITIES:			
Long-term loans and borrowings	17	2,055	2,053
Forward exchange contract		69	15
Deferred tax liabilities	16	426	470
Deferred revenue		155	73
Warranty provision		-	3
Total non-current liabilities		**2,705**	**2,614**
CURRENT LIABILITIES:			
Trade accounts payable	19	4,252	5,809
Other payables and accrued expenses	20	599	391
Advances received from customers		181	149
Bonds payable	18	2,000	2,000
Short-term loans and borrowings	22	5,380	2,985
Value added tax and other taxes payable	21	47	155
Income tax payable		62	342
Deferred revenue		190	69
Warranty provision		9	7
Total current liabilities		**12,720**	**11,907**
Total liabilities		**15,425**	**14,521**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**16,361**	**15,616**

The notes on pages 9 to 43 form an integral part of these financial statements. The Independent Auditors' Report is presented on pages 2 and 3.

Signed on behalf of the Board of Directors: 4 October 2007

A. Tynkovan
Chief Executive Officer

C. Parks
Chief Financial Officer

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

INTERIM CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 30 JUNE 2007
(in millions of Russian Rubles)

	Notes	For the half-year ended 30 June 2007	For the half-year ended 30 June 2006 (unaudited)
REVENUES	23	19,925	14,475
COST OF GOODS SOLD	24	(15,441)	(11,618)
GROSS PROFIT		4,484	2,857
Selling, general and administrative expenses	25	(4,402)	(2,759)
Other operating income	26	299	129
Other operating expenses	27	(62)	(57)
OPERATING PROFIT		319	170
Finance costs, net	28	(401)	(127)
(LOSS)/PROFIT BEFORE INCOME TAX		(82)	43
INCOME TAX EXPENSE	16	(77)	(30)
NET (LOSS)/PROFIT		**(159)**	**13**
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR BASIC AND DILUTED EARNINGS PER SHARE (in millions)		29,954	121
BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (in RUR)		(0.005)	0.107

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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY FOR THE HALF-YEAR ENDED 30 JUNE 2007

(In millions of Russian Rubles)

	Share capital	Accumulated deficit	Total
Balance at 1 January 2007	**1,498**	**(403)**	**1,095**
Net loss for the period	-	(159)	(159)
Balance at 30 June 2007	**1,498**	**(562)**	**936**
Balance at 1 January 2006	**1**	**(523)**	**(522)**
Issuance of shares	5	-	5
Net profit for the period	-	13	13
Balance at 30 June 2006	**6**	**(510)**	(504)

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 30 JUNE 2007

(In millions of Russian Rubles)

	For the half-year ended	
	30 June 2007	**30 June 2006 (unaudited)**
OPERATING ACTIVITIES:		
(Loss)/profit for the half-year	(159)	13
Adjustments for:		
Income tax expense recognized in profit or loss	77	30
Interest expense on loans	311	134
Coupon yield expense	99	-
Loss on sale or disposal of property, plant and equipment	-	5
Loss on disposal of business	-	1
Depreciation and amortization	226	116
Foreign exchange gain	(16)	(22)
Change in fair value of forward contracts	54	-
Change in allowance for doubtful debts	8	3
Change in provision for goods returns	(1)	-
Change in provision for obsolete and slow moving goods	91	(6)
Operating cash flows before movements in working capital	690	274
Movements in working capital		
(Increase)/decrease in inventories	(1,047)	1,119
Decrease in trade receivables	511	1
Increase in other accounts receivable and prepaid expenses	(524)	(295)
Decrease/(increase) in value added tax recoverable and other taxes receivable	130	(4)
Increase in deferred cost	(23)	-
Decrease in trade payables	(1,557)	(2,448)
Increase/(decrease) in other payables and accrued expenses	320	(1,010)
Increase in advances from customers	32	40
Decrease in warranty provision	(1)	-
(Decrease)/increase in value added tax and other taxes payable	(108)	44
Increase in deferred revenues	203	-
Cash used in operations	(1,374)	(2,279)
Interest paid	(521)	(87)
Income taxes paid	(683)	(71)
Net cash used in operating activities	**(2,578)**	**(2,437)**
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment (including construction in progress)	(505)	(287)
Decrease in advances paid for property, plant and equipment	11	5
Purchase of intangible assets	(5)	(2)
Receipts from settlement of loans and notes receivable	55	8
Cash invested in loans and notes receivable	(39)	(41)
Net cash used in investing activities	**(483)**	**(317)**
FINANCING ACTIVITIES:		
Proceeds from sale of equity shares	-	5
Proceeds from borrowings	17,785	5,098
Repayment of borrowings	(15,374)	(2,908)
Net cash from financing activities	**2,411**	**2,195**
NET DECREASE IN CASH AND CASH EQUIVALENTS	(650)	(559)
CASH AND CASH EQUIVALENTS, beginning of the period	932	738
CASH AND CASH EQUIVALENTS, end of the period	282	179

The notes on pages 9 to 43 form an integral part of these financial statements. The Independent Auditors' Report is presented on pages 2 and 3.

1. GENERAL INFORMATION

The interim consolidated financial statements of OJSC "Company M.video" (the "Company") and subsidiaries (the "Group") as at and for the half-year ended 30 June 2007 were authorized for issue in accordance with a resolution of the Board of Directors on 4 October 2007. The Company and its subsidiaries (refer listing below) are incorporated in the Russian Federation.

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 29). 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, digital equipment as well as related services.

The Group operates in two sectors: retail and wholesale. The retail sector is comprised of the chain of owned and leased stores 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 of 30 June 2007 and 31 December 2006:

Name of subsidiary	Nature of business	Proportion of ownership interest and voting power held, % 30 June 2007	Proportion of ownership interest and voting power held, % 31 December 2006
LLC "M.video Management"	Trading	100	100
LLC "M.video Torg"	Equipment	100	100
LLC "M.video Trade"	Trading	100	100
LLC "Nivo"	Trading	100	100
LLC "Universopt"	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 "Electrosteal"	Trading	-	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
LLC "M.video – Chelyabinsk"	Trading	-	100
LLC "Techno-smart"	Trading	-	100
LLC "Triumph MV"	Trading	-	100

The following entities were merged into LLC "M.video Management" on 2 April 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"

Shareholders

As at and for the half-year ended 30 June 2007, the registered shareholders of OJSC "Company M.video" and their respective ownership and voting interests were as follows:

Svece Limited	99.597%
M.video Holding (Cyprus) Limited	0.402%
Non-commerical partnership M.video	0.001%

Holders of ordinary shares possess the right to vote.

Ultimate Shareholders

M.video Investment Ltd., 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.

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

2. PRESENTATION OF FINANCIAL STATEMENTS

Basis of Preparation

The accompanying interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for interim financial statements, and specifically, International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). These are the Group's first IFRS interim consolidated financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1") has been applied.

The Group will be preparing its first annual financial statements in accordance with IFRS for the year ending 31 December 2007. IFRS 1 states that companies should use the same accounting policies in their opening IFRS balance sheet and for all periods covered by their first annual IFRS financial statements.

The Group has previously prepared the preliminary IFRS consolidated financial statements for the year ended 31 December 2006 on the basis stated in the previous paragraph. The preliminary IFRS consolidated financial statements for the year ended 31 December 2006 also included an explanation why it is not possible to be certain that the accounting policies applied in their preparation will be the same policies that are applied to the final balance sheet and the first complete set of IFRS financial statements prepared for the year ending 31 December 2007.

The accompanying interim consolidated financial statements for the half-year ended 30 June 2007 have been prepared following the same accounting policies, presentation and methods of computation as were applied in the preparation of the preliminary IFRS consolidated financial statements for the year ended 31 December 2006. In preparing the interim IFRS consolidated financial statements management has used the existing standards and interpretations which have been in issue up to 30 June 2007 to make assumptions about the accounting policies expected to be adopted when the first IFRS consolidated annual financial statements are prepared for the year ending 31 December 2007.

The Group's transition date to IFRS was 1 January 2006. The reconciliation of the Group's equity reported under Russian Accounting Standards ("RAS") to its equity under IFRS as of 1 January 2006 and 31 December 2006 as well as reconciliation of the net profit reported under RAS to the net profit under IFRS are presented in the Group's preliminary consolidated financial statements for the year ended 31 December 2006.

The Company did not previously prepare interim financial statements for the comparable interim period of the immediately preceding financial year. Therefore it does not present reconciliations of its equity under RAS to its equity under IFRS as of 30 June 2006 and reconciliation of its profit or loss under RAS for the half-year ended 30 June 2006 to its profit under IFRS as permitted by IFRS 1.

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 interim consolidated financial statements, which have been prepared based on the Russian statutory accounting records, reflect those adjustments necessary for such interim consolidated financial statements to be presented in accordance with IFRS.

The interim consolidated financial statements have been prepared on the historical cost basis except for the valuation of financial instruments in accordance with IAS No. 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 3).

Use of estimates at interim date – The preparation of interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Seasonality of operation – 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 method of accounting for fixed costs such as depreciation, some general and administration expense that are not significantly affected by business seasonality.

Functional and presentation currency – The Group uses the Russian Ruble ("RUR") as its functional and presentation currency. Management selected the RUR as the Group's functional currency because the majority of the Group's transactions are denominated in RUR.

Basis of consolidation – The interim 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 that are recognized in assets 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 interim IFRS consolidated financial statements are prepared on the going concern basis. As of 30 June 2007, the Group is in a net current liability position. This has arisen principally due to the redemption option available to the holders of ruble bonds which is exercisable in certain circumstances, thus requiring their classification as current liabilities. Management has evaluated the Group's ability to continue as a going concern and believes that the Group will continue to trade as a going concern within the foreseeable future. In addition, management believes that should it be necessary, it will be able to draw down on facilities which are currently uncommitted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency – 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 interim consolidated financial statements, the results and financial position of each entity are expressed in RUR, which is the functional currency of the Group and the presentation currency for the interim 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.

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 deemed cost or historical cost less subsequent depreciation and impairment. 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 by independent professional 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 expected useful lives. All other repair and maintenance expenditure is charged to the income statement during the financial year 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 and 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 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 related 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 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 asset are as follows:

Software licenses	5 to 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.

Current tax

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 reverse 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 apply in the period in which the liability is settled or the asset 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 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 3 above.

Held-to-maturity investments

Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield method.

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

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 has 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 where 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 receivables where the carrying amount is reduced through the use of an allowance account. When a trade 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 related 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.

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.

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 above.

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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

Other financial liabilities

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

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.

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. Also included in the cost of inventory are certain supplier bonuses that are not reimbursement of specific, incremental and identifiable costs to promote a supplier’s products. Other costs associated with storing and transporting merchandise inventories to our retail stores are expensed as incurred and included in 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 short term deposits in the balance sheet 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 Company makes a provision for warranty costs. These costs are recognized at the date of sale of the relevant products, at the 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 revenues are 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 revenues – revenue is recognized at the point of sale or when 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 revenues – revenue is recognized when the customer has collected the goods from the warehouse or when the goods are delivered and accepted at the customer's warehouse and after satisfying the criteria outlined above.

Revenue from services

Revenues from services are recognized in the period in which the services have been rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. The criteria outlined in the "Sale of goods" section above are also considered.

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.

Additional service agreements

Revenues for the sales of additional service agreements are recognized over the life of the agreement using a straight line method. Cash received in advance of services provided is presented as deferred revenue. Costs directly associated with the sale of additional service agreements, such as sales bonuses paid to shop assistants, are also deferred and subsequently recognized in the income statement on the same basis as related revenue (refer to Note 33(c)).

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 bonuses 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.

4. 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 preliminary consolidated financial statements for the half-year ended 30 June 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 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.
- 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 revenues from the Group's major customers. This standard will supersede IAS 14 "Segment Reporting". The Group is currently evaluating the potential impact of IFRS 8 on the presentation of segmental information.
- 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 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. In many countries, laws or contractual terms require employers to make minimum funding payments for their pension or other employee benefit plans. Management is currently assessing the impact of this interpretation but believes that this interpretation should not have a significant impact on the Group.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which have been described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, including, but not limited to, the uncertainties and ambiguities of the Russian legal and taxation systems and the difficulties in securing your 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 periods, or in the period of the revision and future periods if the revision affects both current and future periods.

Inventory valuation

Inventories are valued at the lower of weighted average cost and net realizable value. Management reviews the inventory balances to determine if inventories can be sold at amounts greater than or equal to their carrying amounts. 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 provision 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 compared to book value at the balance sheet date;
(c) Stock held at service centers – applied a provision in the amount of 70% of the carrying value of the inventory.

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

Supplier bonuses

Management has determined that substantially all supplier bonuses received or receivable in respect of promotional activities should be treated as volume based, effectively reducing the cost of goods purchased from the suppliers. Had those bonuses been treated as a reduction of marketing expenses, inventories would increase by 32 million RUR and selling, general and administrative expenses would decrease by 32 million RUR.

Allowances for doubtful accounts

Allowance for doubtful accounts 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, changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the Group's interim 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 also 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 31 for further discussion.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at 30 June 2007 and 31 December 2006 consisted of the following:

	Buildings	Leasehold improve-ments	Trade equipment	Security equipment	Other	Total
Cost						
At 31 December 2006	2,205	527	410	197	380	3,719
Additions	-	182	43	47	239	511
Disposals	-	-	-	-	-	-
At 30 June 2007	2,205	709	453	244	619	4,230
Accumulated Depreciation						
At 31 December 2006	9	42	89	66	89	295
Charge for the year	55	38	46	30	56	225
Disposals	-	-	-	-	-	-
At 30 June 2007	64	80	135	96	145	520
Net Book Value						
At 30 June 2007	**2,141**	**629**	**318**	**148**	**474**	**3,710**
At 31 December 2006	**2,196**	**485**	**321**	**131**	**291**	**3,424**

Property, plant and equipment as at 30 June 2006 and 31 December 2005 consisted of the following:

	Buildings	Leasehold improve-ments	Trade equipment	Security equipment	Other	Total
Cost						
At 31 December 2005	-	63	267	115	191	636
Additions	-	145	31	27	85	288
Disposals	-	-	-	(1)	(2)	(3)
At 30 June 2006	-	208	298	141	274	921
Accumulated Depreciation						
At 31 December 2005	-	-	-	-	-	-
Charge for the year	-	10	40	27	38	115
Disposals	-	-	-	-	-	-
At 30 June 2006	-	10	40	27	38	115
Net Book Value						
At 30 June 2006	**-**	**198**	**258**	**114**	**236**	**806**
At 31 December 2005	**-**	**63**	**267**	**115**	**191**	**636**

At 30 June 2007, property, plant and equipment with a carrying amount of 312 million RUR (31 December 2006: 320 million RUR) was collateralized against a portion of loans provided to the Group by banks (refer Notes 17 to 22).

At 30 June 2007, there were no commitments for the acquisition of property, plant or equipment (31 December 2006: nil).

7. INTANGIBLE ASSETS

Intangible assets as of 30 June 2007 and 31 December 2006 consisted of the following:

	Software licenses	Trade marks	Total
Cost			
At 31 December 2006	34	2	36
Additions	5	-	5
At 30 June 2007	39	2	41
Accumulated amortization			
At 31 December 2006	3	-	3
Charge for the period	1	-	1
At 30 June 2007	4	-	4
Net book value			
At 30 June 2007	**35**	**2**	**37**
At 31 December 2006	**31**	**2**	**33**

Intangible assets as of 30 June 2006 and 31 December 2005 consisted of the following:

	Software licenses	Trade marks	Total
Cost			
At 31 December 2005	17	-	17
Additions	-	3	3
Disposals	-	(1)	(1)
At 30 June 2006	17	2	19
Accumulated amortization			
At 31 December 2005	-	-	-
Charge for the period	1	-	1
At 30 June 2006	1	-	1
Net book value			
At 30 June 2006	**16**	**2**	**18**
At 31 December 2005	**17**	**-**	**17**

The amortization expense has been included in selling, general and administrative expenses.

At 30 June 2007, the Group had commitments for the acquisition of software licenses (refer to Note 31).

8. LONG TERM LOANS AND NOTES RECEIVABLE

Long term loans and notes receivable as of 30 June 2007 and 31 December 2006 consisted of the following:

	2007	2006
Promissory note receivable from a third party	-	33
Unsecured RUR loan given to third parties	-	3
Unsecured RUR loans given to related parties	-	1
Total	**-**	**37**

For additional information relating to related party loans receivable, refer to Note 29.

9. INVENTORIES

Inventories as of 30 June 2007 and 31 December 2006 consisted of the following:

	2007	2006
Goods for resale	8,727	7,682
Other inventories	15	13
Less: provision for obsolete and slow moving goods	(825)	(734)
Total	**7,917**	**6,961**

At 30 June 2007, the value of inventory pledged as collateral for borrowings from banks was 7,028 million RUR (31 December 2006: 5,001 million RUR).

Refer to Notes 17 and 22.

10. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable as of 30 June 2007 and 31 December 2006 consisted of the following:

	2007	2006
Trade receivables from third parties	199	709
Receivables from related parties	-	1
Provision for goods returns	(42)	(43)
Total	**157**	**667**

For details relating to related party receivables, refer to Note 29.

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

As at 30 June 2007, the trade receivables were neither past due nor impaired.

11. OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

Other accounts receivable and prepaid expenses as of 30 June 2007 and 31 December 2006 consisted of the following:

	2007	2006
Advances paid to suppliers and prepaid expenses	1,416	756
Other receivables from third parties	394	543
Advances paid to related parties	25	1
Other receivables from related parties	2	13
Less: allowance for doubtful debts	(14)	(6)
Total	**1,823**	**1,307**

For details relating to other receivables due from related parties, refer to Note 29.

12. VALUE ADDED TAX RECOVERABLE AND OTHER TAXES RECEIVABLE

Value added tax recoverable and other taxes receivable as of 30 June 2007 and 31 December 2006 consisted of the following:

	2007	2006
VAT recoverable	1,437	1,653
Other taxes receivable	99	13
Total	**1,536**	**1,666**

13. SHORT TERM LOANS AND NOTES RECEIVABLE

Short term loans and notes receivable as of 30 June 2007 and 31 December 2006 consisted of the following:

	Interest rate %	Maturity	2007	2006
Promissory notes receivable from third parties	-	December 2007 to March 2008	71	73
Unsecured RUR loans given to related parties	8%	August 2007	39	29
Unsecured RUR loans given to third parties	0% to 2%	December 2007	13	-
Total			**123**	**102**

Promissory notes from a third party represent the promissory note received from LLC "DVI Volga", LLC "DVI Izhevsk" and LLC "Amadeus". The notes are unsecured and non-interest bearing.

For additional information relating to related party loans receivable, refer to Note 29.

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of 30 June 2007 and 31 December 2006 consisted of the following:

	2007	2006
Petty cash and cash in stores	36	44
Cash at banks	74	140
Cash in transit	172	748
Total	**282**	**932**

At 30 June 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 as of the relevant period end.

15. ISSUED CAPITAL

The Company had 29,953,645,400 issued ordinary shares with a par value of 0.05 RUR as of 30 June 2007. There were no changes in respect of issued shares during the half-year ended 30 June 2007.

The Company had 30,120,705,400 authorized ordinary shares as of 30 June 2007. The par value of ordinary shares is 0.05 RUR per share. There were no changes in respect of authorized shares during the half-year ended 30 June 2007.

16. INCOME TAX

The Group's income taxes for the half-year ended 30 June 2007 and 2006 were as follows:

	2007	2006 (unaudited)
Current tax expense	(279)	(33)
Deferred tax benefit	202	3
Total income tax expense	**(77)**	**(30)**

The tax effect on the major temporary differences that give rise to the deferred tax assets and liabilities as at 30 June 2007 and 31 December 2006 is presented below:

	2007	2006
Deferred tax assets		
Difference in depreciable value of property, plant and equipment	29	35
Provision for obsolete and slow-moving inventory	233	176
Adjustment on unrealized profit	-	27
Warranty provision	2	2
Accrual for unused vacation	11	7
Provision for goods return	10	10
Deferred revenue	83	35
Fair market adjustment on forward exchange contract	17	4
Salary-related accruals	29	2
Adjustments on prepaid expenses	11	12
Write off of accounts receivable	9	5
Losses carried forward	25	29
Other adjustments	77	34
Total	**536**	**378**
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	395	394
Adjustment on supplier allowances and other adjustments on payables	-	66
Deferred costs	10	4
Other adjustments	21	6
Total	**426**	**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 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 loss before income tax. Below is a reconciliation of theoretical income tax at 24% to the actual expense recorded in the Group’s income statement:

	2007	2006 (unaudited)
(Loss)/Income before income tax	(82)	43
Theoretical income tax benefit/(expense) at statutory rate of 24%	20	(10)
Adjustments due to:		
Non-deductible expenses, net	(21)	(4)
Income tax provisions	(28)	(16)
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	(48)	-
Income tax expense	**(77)**	**(30)**

Taxable temporary differences in relation to investments in subsidiaries for which deferred tax liabilities have not been recognized as of 30 June 2007 and 2006 amounted to 540 and 83 million RUR respectively.

17. LONG-TERM LOANS AND BORROWINGS

Long-term loans and borrowings as of 30 June 2007 and 31 December 2006 consisted of the following:

	Interest rate	Maturity	2007	2006
Secured bank loans - 59 million EUR	EURIBOR (1m) and (3m) + 2.74% to 4.5%	January to March 2009	2,055	2,053

The secured loans and borrowings have been secured by the Group’s property, plant and equipment and inventory (refer to Notes 6 and 9).

18. BONDS PAYABLE

Bonds payable as of 30 June 2007 and 31 December 2006 consisted of the following:

	2007	2006
Corporate bonds	2,000	2,000

In November 2006, the Group issued RUR non-collateralized bonds with gross proceeds amounting to 2,000 million RUR (the “Bonds”). Direct issue costs of these bonds were not significant. The maximum term of these bonds is 3 years with the maturity date being 18 November 2009. The coupon interest rate of these bonds is 10% for the first year. Interest is paid semi-annually in arrears. The bonds are listed on the Moscow Inter-bank Currency Exchange (“MICEX”).

The interest rate paid on the bonds is fixed for the first year only. After the first anniversary, the Group can set a new coupon interest rate. The revised rate comes into effect on 18 November annually and would be fixed for another year. After the new rate is set, the bondholders have the option to either retain or redeem bonds held. The par value of individual bonds is 1,000 RUR.

Due to the redemption option described above, the bonds have been classified as current liabilities.

19. TRADE ACCOUNTS PAYABLE

Trade accounts payable as of 30 June 2007 and 31 December 2006 consisted of the following:

	2007	2006
Trade payables to third parties	4,198	5,723
Trade payables to related parties	54	86
Total	**4,252**	**5,809**

Trade payables 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 29.

20. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as of 30 June 2007 and 31 December 2006 consisted of the following:

	2007	2006
Other current liabilities to third parties	275	97
Accrued salaries	196	55
Other accrued expenses	52	16
Accrued unused vacation	46	30
Bond coupon yield payable	21	21
Interest payable to third parties	8	2
Other current liabilities to related parties	1	10
Accounts payable for property, plant and equipment	-	42
Interest payable to related parties	-	118
Total	**599**	**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 of 30 June 2007 and 31 December 2006 consisted of the following:

	2007	2006
VAT payable	1	102
Other taxes payable	46	53
Total	**47**	**155**

22. SHORT-TERM LOANS AND BORROWINGS

Short-term loans and borrowings as of 30 June 2007 and 31 December 2006 consisted of the following:

	Interest rate	Maturity	2007	2006
Unsecured bank overdraft – RUR			-	31
Loans from third parties (Banks)				
Secured loans (RUR)	7.1% to 7.8%	July to August 2007	3,704	1,552
Secured loans (USD)	7%	July to August 2007	1,155	-
Secured loan (EUR)	6.6%	August 2007	139	-
Total secured bank loans			**4,998**	**1,552**
Unsecured loan (EUR)	6.6%	August 2007	382	-
Unsecured loans from related parties (RUR)			-	1,402
Total			**5,380**	**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 6 and 9).

23. REVENUES

Revenues for the half-year ended 30 June 2007 and 2006 consisted of the following:

	For the half-year ended	
	30 June 2007	30 June 2006 (unaudited)
Sale of goods – retail (including internet)	18,350	12,453
Sale of goods – wholesale	1,504	2,019
Other	71	3
Total	**19,925**	**14,475**

Other revenue relates to the sale of additional service agreements and commissions from the sale of mobile phone contracts.

24. COST OF GOODS SOLD

Cost of goods sold for the half-year ended 30 June 2007 and 2006 consisted of the following:

	For the half-year ended	
	30 June 2007	**30 June 2006 (unaudited)**
Cost of goods sold	15,643	12,012
Inventory losses	38	1
Change in provision for obsolete and slow moving inventory	91	(6)
Less: supplier bonuses	(331)	(389)
Total	**15,441**	**11,618**

25. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the half-year ended 30 June 2007 and 2006 consisted of the following:

	For the half-year ended	
	30 June 2007	**30 June 2006 (unaudited)**
Payroll and related taxes	1,297	724
Advertising and promotional expenses	690	507
Lease expense	631	616
Transportation	492	136
Warehouse services	316	131
Depreciation and amortization	226	116
Utilities expense	116	69
Security	116	54
Service centre	99	35
Repairs and maintenance	69	38
Bank charges	59	36
Office expenses	56	21
Consulting services	43	23
Travel	41	13
Communication	27	5
Taxes other than income tax	19	7
Insurance	18	1
Packaging and raw materials	10	21
Training	9	14
Bad debt expense	8	-
Commissions	-	13
Other	60	179
Total	**4,402**	**2,759**

Payroll and related taxes includes 237 and 131 million RUR contribution to the state pension plan for the half-year ended 30 June 2007 and 2006, respectively.

26. OTHER OPERATING INCOME

Other operating income for the half-year ended 30 June 2007 and 2006 consisted of the following:

	For the half-year ended	
	30 June 2007	30 June 2006 (unaudited)
Income from supplier advertising	13	17
Gain on sale of foreign currency, net	4	-
Other	282	112
Total	**299**	**129**

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

27. OTHER OPERATING EXPENSES

Other operating expenses for the half-year ended 30 June 2007 mainly consisted of the tax provision (other than income tax) in the amount of 17 million RUR, refer to Note 31 (30 June 2006: nil), and other individually insignificant items.

28. FINANCE COSTS, NET

Finance costs for the half-year ended 30 June 2007 and 2006 consisted of the following:

	For the half-year ended	
	30 June 2007	30 June 2006 (unaudited)
Interest on bank loans	257	94
Coupon yield on corporate bonds	99	-
Change in fair value of derivatives	54	-
Interest on non-bank loans	-	40
Other	(9)	(7)
Total	**401**	**127**

29. RELATED PARTIES

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

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

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial half-years (for information regarding outstanding balances at 30 June 2007 and 31 December 2006, also refer to Notes 8, 10, 11, 13, 17, 19, 20, 22):

	6 months 2007		6 months 2006 (unaudited)		30 June 2007		30 June 2006 (unaudited)	
Sales/purchases from related party	**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 “ElectroAreal”	-	-	-	-	-	1	5	-
LLC “KMV”	-	-	-	11	-	10	-	14
LLC “Olga-Alternativa”	-	-	-	2	-	1	-	1
LLC “Anzhela”	-	-	-	3	1	-	1	1
LLC “Nadezhda-Yg”	-	-	-	-	-	1	-	-
LLC “Bars”	-	6	-	10	4	-	-	-
LLC “Private Security Agency Bars-SB”	-	46	-	17	-	8	-	5
LLC “Noviy Format”	-	13	-	5	1	-	-	1
Transservice Group of Companies	10	66	8	34	19	-	-	2
LLC “Transfert”	-	-	-	1	-	-	-	-
LLC “Avtoritet”	-	18	-	-	-	-	-	-
LLC “Avto-Express”	-	53	-	27	2	-	-	2
LLC “TIC BE Sokol”	-	-	-	79	-	-	-	35
LLC “Standard-Invest”	-	-	-	38	-	-	-	32
LLC “Sphere-Invest”	-	-	-	46	-	-	-	24
LLC “PSK Logistic Service”	-	1,174	-	1	-	34	19	-
LLC “Polet-ZM”	-	-	-	1	-	-	-	-

	6 months 2007		6 months 2006 (unaudited)		June 2007		June 2006 (unaudited)	
Loans from/to related party	**Interest received**	**Interest paid**	**Interest received**	**Interest paid**	**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 “Transservice 95”	-	-	-	-	-	-	3	-
LLC “Transservice Saratov”	-	-	-	-	-	-	2	-
LLC “Avto-Express”	-	-	-	-	-	-	3	-
Goodhall Ltd	-	44	-	40	-	-	-	905
Velga Ltd	-	33	-	-	-	-	-	-
LLC “Noviy Format”	1	-	-	-	39	-	-	-

The ultimate parent

M.video Investment Ltd. (BVI)

There were no transactions between the Group and the ultimate parent during the half-years ended 30 June 2007 and 2006.

Immediate parent entity

Svece Ltd. owns 99.597 of the ordinary shares of OJSC "Company M.video".
There were no transactions between the Group and the immediate parent during the half-years ended 30 June 2007 and 2006.

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 30 June 2007 and 31 December 2006 are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables with the exception of what is disclosed in Note 31. As at and for the period ended 30 June 2007, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (31 December 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 "KMV", LLC "Olga Alternativa", LLC "Anzela", LLC "Nadezhda Yg", LLC "Polet ZM", LLC "Noviy Format" – relates to amounts payable on the purchase of properties by LLC "Sphera Invest" and LLC "Standard Invest";
- LLC "Bars" – provided courier services to the Group;
- LLC "Private Security Agency Bars – SB" – provided store security services;
- Transservice Group of Companies – 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 "TIC BE Sokol" – sells merchandise to the Group;
- Goodhall Ltd – provided financing to the Group;
- Velga Ltd – provided financing to the Group;
- LLC "PSK Logistics service" – is a merchandize supplier for the Group.

Compensation of key management personnel of the Group

Key management personnel as at 30 June 2007 are as follows:

(I) BOARD OF DIRECTORS	Title	(II) EXECUTIVES	Title
Peter Gyorffy	Chairman – Appointed 1 March 2007	Janusz Lella	Retail Director
Alexander Tynkovan	President and Chief Executive Officer	Michael Kuchment	Commercial Director
Alexander Zayonts	Vice President	Georges Correia	IT Director
Mikhail Tynkovan	Executive Director	Natalya Muravieva	Logistics Director
Christopher Parks	Chief Financial Officer – Appointed 2 October 2006	Olga Vasiliskova	Human Resources Director
Pavel Breev	General / Expansion Director	Martina Frieser	Marketing Director - Appointed 1 November 2006
Stuart Leighton	Non-Executive Director – Appointed 1 March 2007	Victor Schipin	Marketing Director – Resigned 31 August 2006
David Hamid	Non-Executive Director – Appointed 1 March 2007	Oleg Lunin	Chief Financial Officer – Resigned 30 June 2006
Ilpo Helander	Non-Executive Director – Appointed 1 March 2007		

Compensation of key management personnel for the half-year ended 30 June 2007 comprised of only short term benefits including salaries, bonuses, relocation, annual leave, medical and insurance expenses and amounted to 53 million RUR (Half-year ended 30 June 2006: 26 million RUR).

The Group did not provide any post employment, termination or share based 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 is included in the amount stated above. Refer to Note 33(d).

30. OPERATING LEASE ARRANGEMENTS

The Group has entered into commercial leases for the rental of retail properties, warehouses and office space. These leases have terms ranging between 1 and 10 years. The majority of the lease contracts contain escalation clauses. The Group does not have an option to purchase the leased premises at the expiration of the lease period.

Future minimum rentals payable under non-cancelable operating leases for premises occupied as at 30 June 2007 and 31 December 2006 are as follows:

	30 June 2007	31 December 2006
Within one year	1,723	1,511
After one year but not more than five years	4,650	4,450
More than five years	3,565	3,728
	9,938	**9,689**

Future minimum rentals payable under committed, non-cancelable future store operating leases for premises as at 30 June 2007 and 31 December 2006 are as follows:

	30 June 2007	31 December 2006
Within one year	433	60
After one year but not more than five years	3,240	901
More than five years	4,562	1,466
	8,235	**2,427**

31. 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 years 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 in the interim 30 June 2007 Balance Sheet a provision of 60 million RUR (32 million RUR as of 31 December 2006) for income tax and 17 million RUR (nil as of 31 December 2006) for other tax contingencies in these consolidated financial statements as their best estimate of potential liabilities arising from such contingencies. However, the range of potential exposures and details of the individual tax positions are not disclosed to avoid prejudicing the Group. The increase in tax related contingencies charged to the income statement during the half-year ended 30 June 2007 amounted to 28 million RUR for income tax and 17 million RUR for other taxes (16 million RUR and nil for the half-year ended 30 June 2006).

Customs

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

Subject to the above, during the half-year ended 30 June 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 half-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 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 interim 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

The Group has entered into a 5 year contract with Microsoft for Microsoft Office software rights which commenced in July 2006. This contract is structured in a way that allows the Group to prepay one year at a time. The amount paid during 2006 was 11 million RUR. Based on expected growth rates in the number of users during the remainder of the 5 year contract, the average annual cost for years 2 to 5 should be approximately 23 million RUR. Assuming that the actual number of users is in line with expectations during the remainder of the 5 year contract, this amount is a reasonable approximation of the annual commitment to Microsoft in the subsequent years.

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 30 June 2007 (31 December 2006: 69 million RUR).

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than a forward exchange contract, comprise bank loans, overdrafts and trade payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash, which arise directly from its operations.

The Group has entered into forward exchange contracts to manage currency risks arising from the Group's sources of finance. It is, and has been throughout the half-year ended 30 June 2007, the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

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

Interest rate risk

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 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.

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

30 June 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% Secured bank loans	-	2,055	-	-	-	-	**2,055**

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, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). This assumes that half-year end debt levels were constant over the half-year ended 30 June 2007. There is no impact on the Group's equity.

Half-year ended 30 June 2007	**Increase / decrease in basis points**	**Effect on profit before tax**
Changes in the floating interest rates	25	(3)
	50	(5)
	100	(11)
	(25)	3
	(50)	5
	(100)	11

For the corresponding period ended 30 June 2006, 100% of the Group's debt was raised at a fixed interest rate. Therefore no comparative information has been provided.

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 2007 as described in Note 18.

Foreign currency risk

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 or United States Dollars. 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.

It is the Group's policy not to enter into forward contracts until a firm commitment is in place. 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 RUR.

No sensitivity analysis has been performed due to the fact that movements in foreign currencies (i.e. 10% or less) will not have a material impact on the Group.

Credit risk

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. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

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 cash-flows, so that it can determine its funding needs. 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 sufficient amount of approved undrawn borrowing facilities. At 30 June 2007, the Group had available 826 million RUR 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 redeemed during 2009, approximately 57% of the Group's debt will mature in less than one year at 30 June 2007.

The table below summarizes the maturity profile of the Group's financial liabilities at 30 June 2007 based on contractual undiscounted payments:

30 June 2007	**Less than 3 months**	**3-12 months**	**1-5 years**	**Total**
Interest bearing loans and borrowings	5,380	2,000	2,055	9,435
Trade payables	4,252	-	-	4,252
Other payables and accrued expenses	578	21	-	599
Income tax payable	62	-	-	62
Value added tax and other taxes payable	47	-	-	47
Forward exchange contract	34	-	35	69
Total	**10,353**	**2,021**	**2,090**	**14,464**

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 payables	5,809	-	-	5,809
Other payables and accrued expenses	403	21	-	424
Income tax payable	309	-	-	309
Value added tax and other taxes payable	155	-	-	155
Forward exchange contract	-	-	15	15
Total	**8,259**	**3,423**	**2,068**	**13,750**

Capital management

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.

The Group’s overall strategy remains unchanged from 2006.

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group’s financial instruments that are carried in the financial statements:

	Carrying amount		**Fair value**	
	2007	**2006**	**2007**	**2006**
Financial assets				
Cash and cash equivalents	282	932	282	932
Available for sale investment at cost	28	28	28	28
Loans and notes receivable (current)	123	102	123	102
Loans and notes receivable (non-current)	-	37	-	37
Financial liabilities				
Bank overdraft	-	31	-	31
Interest-bearing loans and borrowings:				
Floating rate borrowings	2,055	2,053	2,055	2,053
Fixed rate borrowings	7,380	4,954	7,390	4,954
Forward exchange contract	69	15	69	15

33. EVENTS AFTER THE BALANCE SHEET DATE

(a) Reverse split transaction

On 13 July 2007, the OJSC "Company M.video" Board of Directors approved a reverse share split of 1:200 (in compliance with the decision of OJSC "Company M.video" shareholders on 29 June 2007). On 23 August 2007 the Company registered this change with the appropriate governmental agencies and changed the charter and share register from 29,953,645,400 shares at 0.05 RUR to 149,768,227 shares at 10 RUR.

(b) LLC "Liga Development"

On 16 August 2007, the Group sold its 25% interest in LLC "Liga Development" to a related party for 28 million RUR. The sales price was equal to the carrying value of the asset as at 30 June 2007. The asset is included in the interim IFRS consolidated financial statements in the line "Available for sale investment at cost".

(c) Service center

On 10 September 2007, LLC "Mvideo Management" signed a contract to transfer its obligations under the 2, 3 and 5 year additional service agreements ("ASA") to a related party. Under the terms of the contract the related party will be responsible for all costs associated with the rendering of services under the ASA program. In return for assuming this obligation the related party will be paid a percentage of the monies received. The contract provisions include both past and future sales of the ASA. The total current and non-current deferred revenue of 315 million RUR, as shown in the June 2007 interim IFRS balance sheet, which has not been recognized by September 2007, was recognized as revenue in September 2007.

(d) Long term incentive plan

On 28 June 2007, the Board of Directors approved the adoption of a Long Term Incentive Plan (LTIP) for selected members of the Group's management team. In accordance with the terms of the LTIP, one percent (1%) of the Company's existing shares have been allocated to the LTIP, contingent on the occurrence of Initial Public Offering of the Company's shares ("IPO"). Between 26 September 2007 and 1 October 2007, 35 persons became members of the plan and 42.37% of the shares designated for the LTIP were committed. Under the terms of the LTIP the vesting period is three (3) years with 33.33% of the shares to vest each April subsequent to the year of the IPO. Participants are able to exercise their 33.33% entitlement within 30 days of each vesting period by paying 10 RUR 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.