

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

**Interim Condensed Consolidated
Financial Information (Unaudited)**
Half-Year Ended 30 June 2008

OJSC “COMPANY M.VIDEO” AND SUBSIDIARIES

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2008

Management confirms its responsibility for the preparation of the interim condensed consolidated financial information that presents fairly the interim consolidated financial position of the Group as at 30 June 2008 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 condensed consolidated financial information, 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;
- Preparing the interim condensed consolidated financial information 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 information of the Group complies 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;
- Preventing and detecting fraud and other irregularities.

The interim condensed consolidated financial information for the half-year ended 30 June 2008 was approved on 30 October 2008 by:



A. Tynkovan
Chief Executive



C. Parks
Chief Financial Officer

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2008

(in millions of Russian Rubles)

	Notes	30 June 2008	31 December 2007
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	3	4,832	4,412
Construction in process*		17	6
Intangible assets*	4	95	43
Long term loans and notes receivable		-	5
Deferred tax assets		876	723
Advances paid for property, plant and equipment		4	42
Forward exchange contract		-	32
Other assets		77	65
Total non-current assets		5,901	5,328
CURRENT ASSETS:			
Inventories	5	10,943	10,187
Trade accounts receivable		53	76
Other accounts receivable and prepaid expenses	6	1,964	1,758
Value added tax recoverable and other taxes receivable	7	1,231	1,590
Income tax receivable		391	5
Short term loans and notes receivable		5	15
Other current assets		102	98
Forward exchange contract		110	-
Short-term investment	8	1,770	1,290
Cash and cash equivalents	9	1,176	2,380
Total current assets		17,745	17,399
TOTAL ASSETS		23,646	22,727

* For information relating to prior period reclassification, refer to Notes 2 and 4.

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

AS AT 30 JUNE 2008

(in millions of Russian Rubles)

	Notes	30 June 2008	31 December 2007
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY:			
Issued capital	10	1,798	1,798
Additional paid in capital		4,576	4,576
Retained earnings		712	265
Total shareholders' equity		7,086	6,639
NON-CURRENT LIABILITIES:			
Long-term loans and borrowings	11	-	2,127
Deferred tax liabilities		482	507
Provisions*	15	80	68
Total non-current liabilities		562	2,702
CURRENT LIABILITIES:			
Trade accounts payable	12	6,409	9,176
Other payables and accrued expenses	13	783	600
Advances received from customers		474	293
Bonds payable		118	118
Short-term loans and borrowings	14	7,804	2,565
Value added tax and other taxes payable		101	98
Income tax payable		109	111
Deferred revenue		17	305
Provisions*	15	108	104
Forward exchange contract		75	16
Total current liabilities		15,998	13,386
Total liabilities		16,560	16,088
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		23,646	22,727

* For information relating to prior period reclassification, refer to Notes 2 and 15.

Signed on behalf of the Board of Directors: 30 October 2008



A. Tynkovan
Chief Executive



C. Parks
Chief Financial Officer

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

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE HALF-YEAR ENDED 30 JUNE 2008 (in millions of Russian Rubles)

	Notes	For the half-year ended	
		30 June 2008	30 June 2007
REVENUE	16	30,509	19,925
COST OF SALES*	17	<u>(23,128)</u>	<u>(15,545)</u>
GROSS PROFIT		7,381	4,380
Selling, general and administrative expenses*	18	(6,886)	(4,298)
Other operating income	19	416	299
Other operating expenses		<u>(37)</u>	<u>(62)</u>
OPERATING PROFIT		874	319
Finance costs, net	20	<u>(190)</u>	<u>(401)</u>
PROFIT/(LOSS) BEFORE INCOME TAX		684	(82)
INCOME TAX EXPENSE	21	<u>(287)</u>	<u>(77)</u>
NET PROFIT/(LOSS)		<u>397</u>	<u>(159)</u>
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR BASIC AND DILUTED EARNINGS PER SHARE (in millions)		180	150**
BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (in rubles)		<u>2.21</u>	<u>(1.06)</u>

* For information relating to prior period reclassification, refer to Notes 2, 17 and 18.

** The weighted average number of ordinary shares and loss per share attributable to ordinary equity holders reported in the IFRS interim consolidated financial statements for the period ended as at 30 June 2007 was 29,954 million and 0.005 rubles respectively. As stated in Note 10, a reverse share split of 1:200 was approved by the shareholders of OJSC "Company M.video" on 29 June 2007. The Company registered this change with the appropriate governmental agencies and changed the charter on 19 September 2007. To ensure comparability from period to period, the weighted average number of ordinary shares for the interim period ended 30 June 2007 has been adjusted to arrive at the same basis used for the period ended 30 June 2008.

As at 1 November 2007 the Company issued an additional 30 million ordinary shares (refer to Note 10).

Signed on behalf of the Board of Directors: 30 October 2008



A. Tynkovan
Chief Executive



C. Parks
Chief Financial Officer

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE HALF-YEAR ENDED 30 JUNE 2008 (In millions of Russian Rubles)

	Share capital	Additional paid in capital	Retained earnings/ (Accumulated deficit)	Total
Balance as at 1 January 2008	1,798	4,576	265	6,639
Recognition of share-based payment for ordinary shares previously issued (Note 22)	-	-	43	43
Reversal of related income tax previously recognized in equity	-	-	7	7
Net profit for the period	-	-	397	397
Balance as at 30 June 2008	1,798	4,576	712	7,086
Balance as at 1 January 2007	1,498	-	(403)	1,095
Net (loss) for the period	-	-	(159)	(159)
Balance as at 30 June 2007	1,498	-	(562)	936

Signed on behalf of the Board of Directors: 30 October 2008



A. Tynkovan
Chief Executive



C. Parks
Chief Financial Officer

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 30 JUNE 2008

(In millions of Russian Rubles)

	For the half-year ended	
	30 June 2008	30 June 2007
OPERATING ACTIVITIES:		
Profit/(loss) for the half-year	397	(159)
Adjustments for:		
Income tax expense recognized in profit or loss	287	77
Interest expense on bank loans	255	311
Interest income	(109)	-
Coupon yield expense	6	99
Loss on sale or disposal of property, plant & equipment	1	-
Depreciation and amortization of non-current assets	373	226
Net foreign exchange gain	(4)	(16)
Change in allowance for doubtful debts	9	8
Shared-based payment	43	-
Change in allowance for doubtful notes receivable	(1)	-
Change in fair value of forward contracts	38	54
Change in provision for goods returns	-	(1)
Change in provision for obsolete and slow moving goods	-	91
Operating cash flows before movements in working capital	1,295	690
Movements in working capital		
(Increase) in inventories	(756)	(1,047)
Decrease in trade account receivable	22	511
(Increase) in other accounts receivable and prepaid expenses	(158)	(524)
Decrease/(increase) in value added tax recoverable and other taxes receivable	359	130
(Increase) in deferred cost		(23)
(Decrease)/increase in trade accounts payables	(2,752)	(1,557)
Increase in other payables and accrued expenses	183	320
Increase in advances received from customers	181	32
(Decrease) in warranty provision	-	(1)
Increase/ (decrease) in value added tax and other taxes payable	3	(108)
(Decrease)/ increase in deferred revenues	(288)	203
Cash (used in) operations	(1,911)	(1,374)
Income taxes paid	(849)	(683)
Interest paid	(232)	(521)
Forward contracts settlement	(58)	-
Net cash used in operating activities	(3,050)	(2,578)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 30 JUNE 2008 (CONTINUED) (In millions of Russian Rubles)

INVESTING ACTIVITIES:	30 June 2008	30 June 2007
Purchases of property, plant and equipment (including construction in progress)	(786)	(505)
Short-term investments with banks	(480)	
Decrease in advances paid for property, plant and equipment	38	11
Purchase of intangible assets	(65)	(5)
Receipts from settlement of loans and notes receivable	14	55
Cash invested in loans and notes receivable	-	(39)
Interest received	54	
Net cash used in investing activities	<u><u>(1,225)</u></u>	<u><u>(483)</u></u>
FINANCING ACTIVITIES:		
Proceeds from sale of equity shares	-	-
Proceeds from borrowings	10,271	17,785
Repayment of borrowings	(7,200)	(15,374)
Net cash from financing activities	<u><u>3,071</u></u>	<u><u>2,411</u></u>
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,204)	(650)
CASH AND CASH EQUIVALENTS, beginning of the period	2,380	932
CASH AND CASH EQUIVALENTS, end of the period	<u><u>1,176</u></u>	<u><u>282</u></u>

Signed on behalf of the Board of Directors: 30 October 2008



A. Tynkovan
Chief Executive



C. Parks
Chief Financial Officer

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2008 *(In millions of Russian Rubles)*

1. GENERAL INFORMATION

The interim condensed consolidated financial information of OJSC “Company M.video” (the “Company”) and subsidiaries (the “Group”) for the half-year ended 30 June 2008 was authorized for issue in accordance with a resolution of the Board of Directors on 30 October 2008.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The annual consolidated financial statements of OJSC “Company M.Video” are prepared in accordance with International Financial Reporting Standards (“IFRS”). This interim condensed consolidated financial information for the half-year ended 30 June 2008 has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”). The interim condensed financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2007 and for the year then ended.

The amounts in the interim condensed consolidated financial information are presented in Russian Rubles (“RUR”) unless expressly indicated otherwise.

Seasonality of operations

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.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed financial information are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2007, except for the following:

Capitalization of the expenditures on low value non-current assets

Due to improvement in accounting system starting 2008 the Group capitalizes expenditures on low value non-current assets such as furniture, trade equipment and computer equipment when it is probable that the Group will derive future economic benefits from them. Such low value assets are aggregated by specific groups when purchased and depreciated over three years. In prior periods the Company wrote off such expenditures in full when the assets were acquired. The Group believes that retrospective application of this change in accounting policy would be impracticable.

Adoption of Interpretation IFRIC 11 “IFRS 2 – Group and Treasure Share Transactions”

This Interpretation requires arrangements whereby an employee is granted rights to an entity’s equity instruments, to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instrument needed. The adoption of this interpretation did not have any effect on the financial position or performance of the Group.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2008 (In millions of Russian Rubles)

Adoption of Interpretation IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”

This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 “Employee Benefits”. As the Group does not currently have any long-term defined benefit obligation to its employees, the Interpretation had no impact on the financial position or performance of the Group.

Adoption of Interpretation IFRIC 13 “Customer Loyalty Programs”

IFRIC 13 “Customer Loyalty Programs” should be applied for annual periods beginning on or after 1 July 2008, its earlier application is permitted. The Company started application of the Interpretation in connection with commencement of the Company’s loyalty program in May 2008. The Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. Therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are executed. As the new loyalty program was operating only for a part of this interim period and only in selected stores, this Interpretation did not have material impact on the financial statements of the Group.

Reclassifications

The Company made the following reclassifications to the previously reported amounts to conform to the presentation of the current reporting period:

- The cost of intangible assets which are not yet ready for intended use in the amount of 14 was reclassified from “Construction in progress” to “Intangible assets” (Note 4).
- The short term portion of the warranty provision in respect of additional service agreements together with equal corresponding asset in the amount of 97 were reclassified from “Non-current provisions” to “Current provisions” and from “Other non-current assets” to “Other current assets”, respectively (Note 15).
- Transportation expenses for half-year ended 30 June 2007 in the amount of 104 related to goods delivered from suppliers outside the Russian Federation to the Group’s warehouses in Moscow were reclassified from Sale, General and Administrative expenses to Cost of sales as part of the net cost of merchandise inventory sold (Notes 17 and 18).

3. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2008, the Group incurred expenditures on lease hold improvements and acquisition of assets (building, trade equipment etc.) in the amount of 793 (2007: 511).

Assets with a net book value of 1 were disposed of by the Group during the six months ended 30 June 2008 (2007: nil) resulting in a net loss from disposal of 1 (2007: nil).

As at 30 June 2008 property, plant and equipment with carrying amount of 69 was collateralized against a portion of loans provided to the Group by banks (as at 31 December 2007 carrying amount of such assets was 418).

As at 30 June 2008 there were no commitments for the acquisition of property, plant and equipment (31 December 2007: nil).

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2008 (In millions of Russian Rubles)

4. INTANGIBLE ASSETS

During the half-year ended 30 June 2008 the Group incurred expenditures in the total amount of 65 which for the most part relate to the acquisition and development of the software for the customer loyalty program and implementation of additional functionality of the Company's ERP SAP R/3.

The cost of intangible assets which were not ready for intended use as at 31 December 2007 in the amount of 14 was reclassified from "Construction in progress" to "Intangible assets".

5. INVENTORIES

Inventories as at 30 June 2008 and 31 December 2007 consisted of the following:

	<u>30 June 2008</u>	<u>31 December 2007</u>
Goods for resale	11,888	11,032
Other inventories	32	132
Less: allowance for obsolete and slow moving goods	<u>(977)</u>	<u>(977)</u>
Total	<u>10,943</u>	<u>10,187</u>

For information relating to the cost of inventory recognized as an expense during the six months periods ended 30 June 2008 and 30 June 2007 refer to Note 17.

As at 30 June 2008 the value of inventory pledged as collateral for borrowings from banks was 10,165 (31 December 2007: 9,988).

6. OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

Other accounts receivable and prepaid expenses as at 30 June 2008 and 31 December 2007 consisted of the following:

	<u>30 June 2008</u>	<u>31 December 2007</u>
Advances paid to suppliers and prepaid expenses	1,627	1,284
Other accounts receivable from third parties	270	479
Other accounts receivable from related parties	75	31
Less: allowance for doubtful accounts	<u>(8)</u>	<u>(36)</u>
Total	<u>1,964</u>	<u>1,758</u>

7. VALUE ADDED TAX RECOVERABLE AND OTHER TAXES RECEIVABLE

Value added tax recoverable and other taxes receivable as at 30 June 2008 and 31 December 2007 consisted of the following:

	<u>30 June 2008</u>	<u>31 December 2007</u>
VAT recoverable	1,227	1,580
Other taxes receivable	<u>4</u>	<u>10</u>
Total	<u>1,231</u>	<u>1,590</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2008 (In millions of Russian Rubles)

8. SHORT-TERM INVESTMENTS

Short term investments as at 30 June 2008 and 31 December 2007 consisted of the following:

	<u>Interest rate</u>	<u>Maturity</u>	<u>30 June 2008</u>	<u>31 December 2007</u>
Short term deposit in bank	10.5%	July 2008	1,230	750
Short term deposit in bank	9.1%	August 2008	540	540
Total			<u>1,770</u>	<u>1,290</u>

9. CASH AND CASH EQUIVALENTS

For the purpose of interim consolidated cash flow statement, cash and cash equivalents are comprised of the following:

	<u>30 June 2008</u>	<u>31 December 2007</u>
Petty cash and cash in stores	79	67
Cash at banks	916	632
Cash in transit	181	1,241
Short term deposits	-	440
Total	<u>1,176</u>	<u>2,380</u>

10. ISSUED CAPITAL

The Company had 179,768,227 issued ordinary shares with a par value of 10 RUR as at 30 June 2008. There were no changes in respect of issued shares during the half-year ended 30 June 2008.

As at 30 June 2007 the Company had 29,953,645,499 issued ordinary shares with par value of 0.05 RUR per share. As at 29 June 2007 the shareholders of OJSC “Company M.video” approved a reverse share split of 1:200. The Company registered this change with the appropriate governmental agencies and changed the charter on 19 September 2007. The Company’s share registry was changed from 29,953,645,400 shares at 0.05 RUR per share to 149,768,227 shares at 10 RUR per share.

As at 1 November 2007 the Company issued 30,000,000 additional ordinary shares at 10 RUR per share. Changes in the charter were registered on 15 February 2008.

The Company had 209,768,227 authorized ordinary shares as at 30 June 2008. The par value of ordinary shares is 10 RUR per share. There were no changes in respect of authorized shares during the half-year ended 30 June 2008.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2008 (In millions of Russian Rubles)

11. LONG-TERM LOANS AND BORROWINGS

Long-term loans and borrowings as at 30 June 2008 and 31 December 2007 consisted of the following:

	<u>Interest rate</u>	<u>Maturity</u>	<u>30 June 2008</u>	<u>31 December 2007</u>
	1 month EURIBOR+3,5%			
	and 3 months LIBOR+2,74%	January – March 2009		
Secured third parties loans (banks)			-	2,127
Total			<u>-</u>	<u>2,127</u>

As at 30 June 2008 all of Long-term loans and borrowings were reclassified to short-term loans and borrowings due to maturity date being less than 365 days from the reporting date.

12. TRADE ACCOUNTS PAYABLE

Trade accounts payable as at 30 June 2008 and 31 December 2007 consisted of the following:

	<u>30 June 2008</u>	<u>31 December 2007</u>
Trade payables to third parties	6,409	9,109
Trade payables to related parties	-	67
Total	<u>6,409</u>	<u>9,176</u>

13. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as at 30 June 2008 and 31 December 2007 consisted of the following:

	<u>30 June 2008</u>	<u>31 December 2007</u>
Accrued salaries	309	239
Accounts payable for property, plant and equipment	211	213
Accrued unused vacation	101	70
Other accrued expenses	154	44
Other current liabilities to related parties	8	20
Other current liabilities to third parties	-	13
Bond coupon yield payable	-	1
Total	<u>783</u>	<u>600</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2008 (In millions of Russian Rubles)

14. SHORT-TERM LOANS AND BORROWINGS

Short-term loans and borrowings as at 30 June 2008 and 31 December 2007 consisted of the following:

	<u>Interest rate</u>	<u>Maturity</u>	<u>30 June 2008</u>	<u>31 December 2007</u>
Secured third parties loans (banks)	7.8% - 10.25%	January – May 2009	7,804	2,565
Total			7,804	2,565

The loans and borrowings have been secured by the Group’s inventory (refer to Note 5).

15. PROVISIONS

	<u>Non-current</u>		<u>Current</u>	
	<u>30 June 2008</u>	<u>31 December 2007</u>	<u>30 June 2008</u>	<u>31 December 2007</u>
Warranty provision – in respect of additional service agreements (ASA) (i)	77	65	101	97
Warranty provision – repair of goods (ii)	3	3	7	7
Total	80	68	108	104

- (i) The warranty provision in respect of additional service agreements represents management’s best estimate of the future outflow of economic benefits that will be required under the Group’s 2, 3 and 5 year additional service agreements. A Group entity sells the additional service agreements directly to customers, however, a back-to-back agreement entered into between the Group entity and a related party during the year ended 31 December 2007 transfers the obligations under the additional service agreement from the group to the related party. For this reason an equal corresponding non-current asset has been recognized by the Group, and disclosed within other assets. The estimate has been made on the basis of historical warranty trends and may vary as a result of events affecting product quality.
- (ii) The warranty provision in respect of repair of goods represents management’s best estimate of the future outflow of economic benefits that will be required to service goods sold for which there is no supplier service centre in the Russian Federation.

The amount of 97 relating to the short term portion of the warranty provision in respect of additional service agreements as at 31 December 2007, as well as corresponding asset, were reclassified from non-current section to current section.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2008 (In millions of Russian Rubles)

16. REVENUE

Revenue for the half-year ended 30 June 2008 and 2007 consisted of the following:

	For the half-year ended	
	30 June 2008	30 June 2007
Retail revenue (including internet sales)	29,206	18,418
Wholesale revenue	1,300	1,504
Other	3	3
Total	30,509	19,925

Revenue in the amount of 68 relating to the sale of additional service agreements, and disclosed as “Other” revenue for the half-year ended 30 June 2007 has been reclassified as “Retail revenue” for comparative purposes. Revenue from the sale of additional service agreements is derived through the Group’s retail network.

17. COST OF SALES

Cost of sales for the half-year ended 30 June 2008 and 2007 consisted of the following:

	For the half-year ended	
	30 June 2008	30 June 2007
Cost of sales	24,200	15,747
Inventory losses	358	38
Change in provision for obsolete and slow moving inventory	-	91
Less: supplier bonuses	(1,430)	(331)
Total	23,128	15,545

Transportation expenses for half-year ended 30 June 2007 related to goods delivered from suppliers outside the Russian Federation to the Group’s warehouses in Moscow were reclassified from Sale, General and Administrative expenses to Cost of sales as part of the net cost of merchandise inventory sold (see also Notes 2 and 18).

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2008 (In millions of Russian Rubles)

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the half-year periods ended 30 June 2008 and 2007 consisted of the following:

	For the half-year ended	
	30 June 2008	30 June 2007
Payroll and related taxes	2,062	1,297
Lease expense	1,408	631
Advertising and promotional expenses	1,013	690
Transportation	435	388
Warehouse services	462	316
Depreciation and amortization	373	226
Security	217	116
Utilities expense	118	116
Service centre	112	99
Bank charges	107	59
Other	579	360
Total	6,886	4,298

For the half-year ended 30 June 2008 payroll and related taxes include as 275 contribution to the state pension plan and social and medical insurance in the amount of 83 (30 June 2007: 180 and 57 respectively).

Transportation expenses for half-year ended 30 June 2007 related to goods delivered from suppliers outside the Russian Federation to the Group’s warehouses in Moscow were reclassified from Sale, General and Administrative expenses to Cost of sales as part of the net cost of merchandise inventory sold (see also Notes 2 and 17).

19. OTHER OPERATING INCOME

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

20. FINANCE COSTS, NET

Finance costs for the half-year ended 30 June 2008 and 30 June 2007 consisted of the following:

	For the half-year ended	
	30 June 2008	30 June 2007
Interest on bank loans	255	257
Coupon yield on corporate bonds	6	99
Change in fair value of forward contract	38	54
Interest income	(109)	-
Other	-	(9)
Total	190	401

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21. INCOME TAX

The major components of income tax expense in the Group’s interim condensed consolidated income statement are:

	For the half-year ended	
	30 June 2008	30 June 2007
Current income tax		
Current income tax expense	(465)	(279)
Deferred income tax		
Deferred tax benefit	178	202
Total income tax expense	(287)	(77)
Income tax recognized in equity	7	-

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

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

	For the half-year ended	
	30 June 2008	30 June 2007
Profit/(loss) before income tax expense	684	(82)
Theoretical income tax expense at statutory rate of 24%	(164)	20
Adjustments due to:		
Non-deductible expenses, net	(86)	(21)
Income tax provisions	-	(28)
Effect of adjustment of deferred tax asset recognized in prior periods	(37)	-
Effect of unused tax losses and tax offset not recognized as deferred tax asset	-	(48)
Income tax expense	(287)	(77)

22. SHARE-BASED PAYMENTS

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

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Long-term incentive plan – Series one

Under the Series one of the Company’s long-term incentive plan (LTIP) as at 1 October 2007 35 persons became members of the plan and 622,500 shares were committed, which represented 42% of the shares designated for the LTIP. In 2008 prior to the first vesting date (1 April 2008), 123.000 shares were forfeited. Of the remaining 499.500 granted shares, 166.500 shares which vested on 1 April 2008 (tranche one) were exercised. Below is the summary of the arrangements that were in existence as at 30 June 2008:

Option Series one

	<u>Number</u>	<u>Grant date</u>	<u>Vesting date</u>	<u>Expiry date</u>	<u>Exercise price (RUR)</u>	<u>Fair value at grant date (RUR)</u>
Issued 1 October 2007	166,500	1 October 2007	1 April 2009	30 April 2009	10	164.67
Issued 1 October 2007	166,500	1 October 2007	1 April 2010	30 April 2010	10	165.66

The weighted average fair value of the share options under LTIP series one outstanding as of 30 June 2008 was 165.16 RUR (2007: not applicable). Options were priced using the Black-Scholes pricing model.

An expense of 23 million RUR has been recognized during the half-year period ended 30 June 2008 in respect of share-based payments under the Company’s LTIP Series one (2007: nil). This expense relates to equity-settled share-based payments. The expense has been included into selling, general and administrative expense in the line item “payroll and related taxes” (Note 18). The corresponding entry has been reflected within retained earnings.

Long-term incentive plan – Series two

As at 31 March 2008 the Board of Directors approved the adoption of Series two of the LTIP for selected members of the Group’s management team. As at 1 April 2008 46 persons became members of the plan and 755,000 of the shares designated for the LTIP were committed. This allocation forms part of the initial 1,498,682 of the Company’s existing shares which were set aside prior to the Initial Public Offering. Under the terms of Series two of the LTIP, the vesting period is three (3) years with 33.33% of the shares to vest each April following the grant date. Participants are able to exercise their 33.33% entitlement within 30 days of each vesting period by paying 10 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.

Below is the summary of the arrangements under the Company’s LTIP Series two:

Option Series two

	<u>Number</u>	<u>Grant date</u>	<u>Vesting date</u>	<u>Expiry date</u>	<u>Exercise price (RUR)</u>	<u>Fair value at grant date (RUR)</u>
Issued 1 April 2008	252,000	1 April 2008	1 April 2009	30 April 2009	10	168.28
Issued 1 April 2008	252,000	1 April 2008	1 April 2010	30 April 2010	10	169.69
Issued 1 April 2008	252,500	1 April 2008	1 April 2011	30 April 2011	10	170.39

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The weighted average fair value of the share options granted during the period ended 30 June 2008 was 169.45. Options were priced using the Black-Scholes pricing model.

Inputs into the model	LTIP 2 share options vested on 1 April 2009	LTIP 2 share options vested on 1 April 2010	LTIP 2 share options vested on 1 April 2011
Grant date share price	177.45	177.45	177.45
Exercise price	10	10	10
Expected volatility	26.85%	26.85%	26.85%
Option life (years)	1	2	3
Dividend yield	0%	0%	0%
Risk-free interest rate	10%	10%	10%

The expected volatility was determined based on the ending weekly share price for the period 1 November 2007 (listing date) to 30 June 2008. The expected volatility is equal to the historical volatility due to the brief history of trading activity and lack of comparable industry data.

An expense of 20 million RUR has been recognized during the half-year period ended 30 June 2008 in respect of share-based payments under the Company’s LTIP series two (2007: nil). This expense relates to equity-settled share-based payments and has been included into selling, general and administrative expense in the line item “payroll and related taxes” (Note 18).

The following reconciles the outstanding share options granted under the employee share plan at the beginning and end of the half-year ended 30 June 2008:

	LTIP series 1		LTIP series 2	
	Number of options	Weighted average exercise price (RUR)	Number of options	Weighted average exercise price (RUR)
Balance at 1 January 2008	-	-	-	-
Granted during the period	622,500	10	756,000	10
Forfeited during the period	(123,000)	10	-	-
Exercised during the period	(166,500)	10	-	-
Expired during the period	-	-	-	-
Balance at 30 June 2008	333,000	10	756,000	10
Exercisable at the end of the financial year	-	-	-	-

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23. RELATED PARTIES

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

The following table provides the total amount of transactions, which have been entered into with related parties during the six months ended 30 June 2008 and 2007 and the outstanding balances of amounts owed by/to related parties as at 30 June 2008 and December 2007, respectively:

Sales/purchases from related party	6 months 2008		6 months 2007		30 June 2008		31 December 2007	
	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 “Bars”	-	5	-	6	2	-	-	-
LLC “Private Security Agency Bars-SB”	1	65	-	46	4	-	3	-
LLC “Noviy Format”	-	26	-	13	-	-	-	-
Transservice Group of Companies	13	149	10	66	-	4	28	-
LLC “Avtorit”	-	20	-	18	-	-	-	-
LLC “Avto-Express”	-	26	-	53	-	4	-	10
LLC “PSK Logistic Service”	-	-	-	1,174	-	-	-	10
LLC “Universal Service”	-	132	-	-	69	-	-	67

Loans from/to related party	6 months 2008		6 months 2007		June 2008		31 December 2007	
	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:								
Goodhall Ltd	-	-	-	44	-	-	-	-
Velga Ltd	-	-	-	33	-	-	-	-
LLC “Noviy Format”	-	-	1	-	-	-	-	-

Compensation of key management personnel of the Group

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

	For the half-year ended	
	30 June 2008	30 June 2007
Short term benefits*	51	53
Share-based payments	19	-
Total	70	53

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

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

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24. OPERATING LEASE ARRANGEMENTS

Future minimum rentals payable under non-cancelable operating leases for premises occupied as at 30 June 2008 and 31 December 2007 are as follows:

	<u>30 June 2008</u>	<u>31 December 2007</u>
Within one year	2,707	2,320
After one year but not more than five years	8,617	7,212
More than five years	<u>7,014</u>	<u>5,751</u>
	<u><u>18,338</u></u>	<u><u>15,283</u></u>

Future minimum rentals payable under committed, non-cancelable future store operating leases for premises as at 30 June 2008 and 31 December 2007 are as follows:

	<u>30 June 2008</u>	<u>31 December 2007</u>
Within one year	308	439
After one year but not more than five years	974	1,998
More than five years	<u>1,175</u>	<u>2,527</u>
	<u><u>2,457</u></u>	<u><u>4,964</u></u>

25. COMMITMENTS AND CONTINGENCIES

Recent volatility in global and Russian financial markets

In recent months a number of major economies around the world have experienced volatile capital and credit markets. Several major global financial institutions have been placed into bankruptcy, taken over by other financial institutions and/or received significant government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Russia, notwithstanding any potential economic stabilization measures that may be put into place by the Russian Government, there exists as at the date this financial information is authorized for issue economic uncertainties surrounding the continual availability, and cost, of credit both for the entity and its counterparties and the potential for economic uncertainties to continue in the foreseeable future. Due to these uncertainties there is a risk that assets may not be recovered at their carrying amount in the ordinary course of business which could have a corresponding impact on the entity's profitability. As at the date when this consolidated financial information was authorized for issue, the effect of the current market condition on the Group's operations has been limited, and no impairment losses have been identified.

Taxation and regulatory environment

During the current interim period the Group has not made any changes to its provisions and has not identified any other material contingencies which have not been in existence as of the end of the previous annual period. No tax provisions were utilized during the half-year period ended 30 June 2008.

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License Agreements

As at 30 June 2008 the Group committed to pay 2.8 mln EUR in respect of SAP licensing and 1 mln EUR per annum for technical support services with respect to existing SAP licenses and software. The Group uses SAP software for finance and human resources.

Further, 2008 is the third year of a five year contract between the Group and Microsoft for Microsoft Office software right. The contract is structured in a way that allows the Group to prepay one year at a time. As of 30 June 2008 the total commitment for the remainder of the contract is 42 (14 mln RUR per annum).

26. FINANCIAL INSTRUMENTS

Set out below are details of the Company’s forward foreign currency contracts outstanding at the reporting date:

	Foreign currency		Contract value		Fair value	
	30 June 2008	31 December 2007	30 June 2008	31 December 2007	30 June 2008	31 December 2007
Buy USD	65	80	1,608	2,015	(64)	(32)
Buy EUR	140	74	5,089	2,643	99	48

The Group uses forward contracts to eliminate the transitional currency exposures on loan repayments. The forward exchange contract must be in the same currency as the foreign currency item. The Group does not designate forward contracts as hedges for accounting purposes. The change in fair value of forward contracts is included in profit or loss.

27. EVENTS AFTER THE BALANCE SHEET DATE

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