

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

Consolidated Financial Statements
For the Year Ended 31 December 2014

OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

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OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of OJSC “Company “M.video” (the “Company”) and its subsidiary (the “Group”) as at 31 December 2014, and the results of its operations, cash flows and changes in shareholders’ equity for the year then ended, in compliance with International Financial Reporting Standards (“IFRS”).

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2014 were approved on 25 March 2015.



A. Tynkovan
Chief Executive Officer



N. Surikov
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Company "M.video" and its subsidiary (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2014, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

DELOITTE & TOUCHE

25 March 2015
Moscow, Russian Federation

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

ZAO Deloitte & Touche CIS



The Entity: OJSC "Company "M.video"

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

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

Independent Auditor: ZAO "Deloitte & Touche CIS"

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

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

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

OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014 (in millions of Russian Rubles)

	Notes	31 December 2014	31 December 2013 Restated*
NON-CURRENT ASSETS:			
Property, plant and equipment	6	9,935	9,696
Intangible assets	7	4,310	3,190
Deferred tax assets, net	14	3,197	2,570
Other non-current assets	8	636	707
Total non-current assets		18,078	16,163
CURRENT ASSETS:			
Inventories	9	35,434	34,215
Accounts receivable and prepaid expenses	10	10,870	9,151
Income tax receivable		15	18
Other taxes receivable	11	1,100	1,436
Cash and cash equivalents	12	26,122	11,542
Other current assets		12	21
Total current assets		73,553	56,383
TOTAL ASSETS		91,631	72,546
EQUITY:			
Share capital	13	1,798	1,798
Additional paid-in capital	13	4,576	4,576
Treasury shares	13	(328)	(328)
Retained earnings		7,849	7,887
Total equity		13,895	13,933
NON-CURRENT LIABILITIES:			
Provisions		5	10
Total non-current liabilities		5	10
CURRENT LIABILITIES:			
Trade accounts payable		57,428	47,159
Other payables and accrued expenses	15	6,894	4,548
Advances received	16	4,422	1,133
Income tax payable		2,166	556
Other taxes payable	17	1,388	506
Deferred revenue	18	4,969	4,555
Provisions		464	146
Total current liabilities		77,731	58,603
Total liabilities		77,736	58,613
TOTAL EQUITY AND LIABILITIES		91,631	72,546

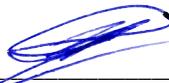
* Comparative information as at 31 December 2013 has been retrospectively adjusted as required by Amendments to IAS 32 “Financial Instruments: Presentation” which have been adopted by the Group in the year ended 31 December 2014 (Note 2).

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

Signed on 25 March 2015 by:



A. Tynkovan
Chief Executive Officer



N. Surikov
Chief Financial Officer

OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

(in millions of Russian Rubles, except earnings per share)

	Notes	2014	2013
REVENUE	19	172,187	148,042
COST OF SALES		<u>(125,587)</u>	<u>(109,682)</u>
GROSS PROFIT		46,600	38,360
Selling, general and administrative expenses	20	(38,425)	(33,566)
Other operating income	21	2,526	2,094
Other operating expenses	22	<u>(601)</u>	<u>(121)</u>
OPERATING PROFIT		10,100	6,767
Finance income, net	23	<u>368</u>	<u>113</u>
PROFIT BEFORE INCOME TAX EXPENSE		10,468	6,880
Income tax expense	14	<u>(2,479)</u>	<u>(1,151)</u>
NET PROFIT for the year, being TOTAL COMPREHENSIVE INCOME for the year		<u>7,989</u>	<u>5,729</u>
BASIC EARNINGS PER SHARE (in Russian Rubles)	24	44.82	32.20
DILUTED EARNINGS PER SHARE (in Russian Rubles)	24	44.50	31.87

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Signed on 25 March 2015 by:



A. Tynkovan
Chief Executive Officer



N. Surikov
Chief Financial Officer

OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

	Notes	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Total
Balance as at 31 December 2012		1,798	4,576	(588)	4,906	10,692
Recognition of share-based payment for ordinary shares previously issued	25	-	-	-	43	43
Exercise of share based payments		-	-	260	(329)	(69)
Dividends declared		-	-	-	(2,462)	(2,462)
Total comprehensive income for the year		-	-	-	5,729	5,729
Balance as at 31 December 2013		1,798	4,576	(328)	7,887	13,933
Recognition of share-based payment for ordinary shares previously issued	25	-	-	-	1	1
Dividends declared	13	-	-	-	(8,028)	(8,028)
Total comprehensive income for the year		-	-	-	7,989	7,989
Balance as at 31 December 2014		1,798	4,576	(328)	7,849	13,895

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

Signed on 25 March 2015 by:


A. Tynkova
 Chief Executive Officer


N. Surikov
 Chief Financial Officer

OPEN JOINT STOCK COMPANY "COMPANY "M.VIDEO"

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

	Notes	2014	2013
OPERATING ACTIVITIES:			
Total comprehensive income for the year		7,989	5,729
Adjustments for:			
Income tax expense	14	2,479	1,151
Depreciation, amortization and impairment loss	20	2,809	2,633
Change in allowance for doubtful advances paid for rent, accounts receivable and prepaid expenses	8,10	51	5
Share-based payment	25	1	43
Change in allowance for obsolete and slow-moving inventories and inventory losses, net of surpluses	9	(371)	433
Other non-cash reconciling items, net		33	(210)
Operating cash flows before movements in working capital		12,991	9,784
Increase in inventories		(823)	(2,380)
(Increase)/decrease in accounts receivable and prepaid expenses		(1,651)	923
Decrease in other taxes receivable		316	472
Increase in trade accounts payable		10,269	3,030
Increase in other payables and accrued expenses		2,473	1,042
Increase/(decrease) in deferred revenue		414	(132)
Increase in advances received		3,289	146
Increase/(decrease) in other taxes payable		882	(401)
Other changes in working capital, net		(35)	-
Cash generated by operations		28,125	12,484
Income taxes paid		(1,493)	(2,131)
Interest paid		(68)	(26)
Forward contracts settlement		-	16
Net cash generated by operating activities		26,564	10,343
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment		(2,491)	(2,308)
Short-term investments with banks		-	981
Purchase of intangible assets		(1,787)	(1,689)
Interest received		322	156
Net cash used in investing activities		(3,956)	(2,860)
FINANCING ACTIVITIES:			
Dividends paid		(8,028)	(2,462)
Proceeds from short-term loans and borrowings		4,615	3,742
Repayment of short-term loans and borrowings		(4,615)	(3,742)
Net cash used in financing activities		(8,028)	(2,462)
NET INCREASE IN CASH AND CASH EQUIVALENTS		14,580	5,021
CASH AND CASH EQUIVALENTS, at the beginning of the year		11,542	6,521
CASH AND CASH EQUIVALENTS, at the end of the year		26,122	11,542

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

Signed on 25 March 2015 by:


A. Tynkovan
Chief Executive Officer


N. Surikov
Chief Financial Officer

OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

1. GENERAL INFORMATION

The consolidated financial statements of OJSC “Company “M.video” (the “Company”) and subsidiary (the “Group”) for the year ended 31 December 2014 were authorized for issue in accordance with a resolution of the Board of Directors on 25 March 2015.

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

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

The Group is the operator of a chain of consumer electronic outlets and online internet stores operating in the Russian Federation. The Group specializes in the sale of TV, audio, video, Hi-Fi, home appliances and digital equipment, as well as related services. The Group comprises a chain of owned and leased stores (368 stores as at 31 December 2014; 333 stores as at 31 December 2013) and online internet stores in Moscow and 52 other cities (online internet stores in Moscow and 51 other cities as at 31 December 2013).

The accompanying consolidated financial statements include assets, liabilities and result of operations of the Company and its subsidiary as at 31 December 2014 and 2013 (the below subsidiary operates in the Russian Federation):

Name of subsidiary	Nature of business	Proportion of ownership interest and voting power held, % 31 December 2014	Proportion of ownership interest and voting power held, % 31 December 2013
LLC “M.video Management”	Retailing	100	100

Shareholders

As at 31 December 2014 and 2013 the registered shareholders of OJSC “Company “M.video” and their respective ownership and voting interests were as follows:

	2014	2013
“Svece Limited”	57.6755%	57.6755%
Various shareholders	42.3245%	42.3245%
Total	100%	100%

Ultimate Shareholders

“M.video Investment Ltd.”, controls 100% of the voting and ordinary shares of “Svece Limited” (both companies are incorporated in Cyprus), and is the ultimate parent entity of the Company. At 31 December 2014, the Company does not have a single ultimate controlling party; however as the most significant shareholders Mr. Alexander Tynkovan, Mr. Michael Tynkovan and Mr. Pavel Breev, citizens of the Russian Federation, could exercise control over “M.video Investment Ltd.” were they to act in concert.

OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

2. BASIS OF PREPARATION

Statement of compliance

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

Basis of Accounting

The consolidated financial statements have been prepared on a historical cost basis except for the valuation of financial instruments in accordance with International Accounting Standard 39 “Financial Instruments: Recognition and Measurement” (“IAS 39”) and International Financial Reporting Standard 13 “Fair value measurement” (“IFRS 13”) and valuation of items of property, plant and equipment measured at fair value which was used as deemed cost of the property, plant and equipment as at the date of transition to IFRS. The Group transitioned to IFRS on 1 January 2006.

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

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

Adoption of the new standards and interpretations

The accounting policies applied by the Group are consistent with those of the previous financial year, except for the adoption of the new standards and interpretations effective as at 1 January 2014.

The Group has adopted the following new and amended International Accounting Standards (“IAS”), International Financial Reporting Standards (“IFRS”) and Interpretations issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB in these annual consolidated financial statements:

- Amendments to IAS 32 “Financial Instruments: Presentation”: Offsetting Financial Assets and Financial Liabilities;
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 27 “Separate Financial Statements”: Investment Entities;
- Amendments to IAS 36 “Impairment of Assets”: Recoverable Amount Disclosures for Non-Financial Assets;
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement”: Novation of Derivatives and Continuation of Hedge Accounting;
- IFRIC 21 “Levies”.

Except as described below the adoption of these new and revised standards and interpretations has not had an impact on consolidated financial statements of the Group for the year ended 31 December 2014.

OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

2. BASIS OF PREPARATION (CONTINUED)

Amendments to IAS 32 “Financial Instruments: Presentation”: Offsetting Financial Assets and Financial Liabilities

Amendments to IAS 32 “Financial Instruments: Presentation” – Offsetting Financial Assets and Financial Liabilities clarify that an entity currently has a legally enforceable right to set-off if that is not contingent on a future event; and enforceable both in the normal course of business and the case of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and were applied retrospectively. The effect of retrospective application on the consolidated statement of financial position as at 31 December 2013 and consolidated statement of cash flows for the year ended 31 December 2013 was as follows:

Consolidated Statement of Financial Position as at 31 December 2013	31 December 2013 as previously reported	Effect of change in accounting policy	31 December 2013 restated
Accounts receivable and prepaid expenses	1,151	8,000	9,151
Trade accounts payable	(39,159)	(8,000)	(47,159)

Consolidated Statement of Cash Flows for the year ended 31 December 2013	2013 as previously reported	Effect of change in accounting policy	2013 restated
Decrease in accounts receivable and prepaid expenses	380	543	923
Increase in trade accounts payable	3,573	(543)	3,030

Reclassifications

In 2014 the Group changed presentation of certain items of asset, liabilities and cash flows in order to enhance fair presentation of the consolidated financial statements. With this regard the Group made the following reclassifications to the prior year amounts to conform to the presentation of the current reporting period:

	As previously reported	Reclassification	After reclassification	Comment
Consolidated Statement of Financial Position as at 31 December 2013				
Deferred tax assets	2,643	(73)	2,570	Reclassification of deferred tax liabilities to net off deferred tax assets
Deferred tax liabilities	(73)	73	-	
Consolidated Statement of Cash Flows for the year ended 31 December 2013				
Other non-cash reconciling items, net	546	(756)	(210)	Reclassification of charge for lease payments calculated on a straight-line basis over the lease term
Increase in other payables and accrued expenses	286	756	1,042	

OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation – The consolidated financial statements comprise the financial statements of the Company and entity controlled by the Company (its subsidiary). 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 subsidiary are prepared for the same reporting year as the parent company, using consistent accounting policies.

Subsidiary is fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases.

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

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

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

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

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

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

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

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

Major replacements or modernizations of property, plant and equipment are capitalized and depreciated over their estimated useful lives. All other repair and maintenance expenditure is recognized in the consolidated statement of profit or loss and other comprehensive income during the financial period in which it is incurred.

OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Software licenses, development and web site	1-10 years
Trademarks	5-10 years

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

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

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

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

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

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

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

OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For tangible and intangible assets the CGU is deemed to be each group of stores located in one city. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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

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

Current tax

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

Deferred tax

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

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

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

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

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

OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current and deferred income tax for the period

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

Fair value of financial instruments – The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques, which include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis, or other valuation models.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Financial assets – Investments are recognized and derecognized on a trade date, where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets that the Group holds on its consolidated statement of financial position at 31 December 2014 are classified into the following specified categories: financial assets as 'at fair value through profit or loss' ("FVTPL") and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets as at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method less any impairment losses and bad debts.

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

Impairment of financial assets

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Derecognition of financial assets

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

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instrument

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

Financial guarantee contract liabilities

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

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

Financial liabilities

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities as at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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

Other financial liabilities

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

Derecognition of financial liabilities

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

Share-based payments – Equity-settled share based payments to employees are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 25.

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

OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Costs of an equity transaction – The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

The amount of transaction costs accounted for as a deduction from equity in the period is disclosed separately. The related amount of income taxes recognized directly in equity is included in the aggregate amount of current and deferred income tax credited or charged to equity.

Value added tax – Value added tax (“VAT”) related to sales is payable to tax authorities on the earliest of (a) cash received from customers in advance or (b) transfer of the goods or rendering services to customers. Input VAT is generally recoverable against sales VAT upon receipt of the VAT invoice. Input VAT on construction in progress can be reclaimed on receipt of VAT invoices for the particular stage of work performed or, if the construction in progress project cannot be broken down into stages, on receipt of VAT invoices upon completion of the contracted work.

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

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

Inventories – Inventories are recorded at the lower of average cost or net realizable value. In-bound freight related costs from the suppliers incurred to deliver inventories to the Group’s central distribution warehouse are included as part of the net cost of merchandise inventories. Certain supplier bonuses that are not reimbursement of specific, incremental and identifiable costs to promote a supplier’s products are also included in the cost of inventory. Other costs associated with storing and transporting merchandise inventories from the central distribution warehouse to the retail stores are expensed as incurred and included either in “Cost of sales” (costs of transporting merchandise from central distribution warehouses to the retail stores) or in “Selling, general and administrative expenses” (all other costs).

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.

OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

Warranties

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

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

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

Sale of goods

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

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

Revenue from sales of goods is recognized at the point of sale or, where later, upon delivery to the customer and is stated net of returns.

OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loyalty programs

The Group operates customer loyalty programs “M.video Bonus” and “Co-brand”, which allow customers to accumulate points when they purchase goods in the Group’s retail stores. The points can then be redeemed as a payment for merchandise, subject to a minimum number of points being obtained. Proceeds from sale to members of the loyalty programs are allocated between the loyalty points and the other components of the sale. The consideration allocated to the loyalty points is measured by reference to their fair value, i.e. the amount for which the loyalty points could be sold separately. This amount is deferred and recognized as revenue when the points are redeemed. Expected breakage is recognized as revenue at the time of initial sale as it is excluded from the amount allocated to loyalty points.

Revenue from services

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

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

Additional service agreements

The Group sells additional service agreements (“ASA”) and has an obligation to the buyer to perform services throughout the period of the contract. Revenue from the ASA is deferred and recognized on a straight-line basis over the term of the service contract. Related costs, such as cost of services performed under the contract, general and administrative expenses and advertising expenses are charged to expense as incurred.

Agent fees

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

Gift cards

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

Interest income

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

Cost of sales – Cost of sales include the cost of inventories and services acquired from suppliers, freight in, costs related to transporting inventories from distribution centers to stores, allowance for obsolete and slow-moving inventory, inventory losses and supplier bonuses.

OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Supplier bonuses – The Group receives supplier bonuses in the form of cash payments or allowances for various programs, primarily volume incentives and reimbursements for specific programs such as markdowns, margin protection and advertising. The Group has agreements in place with each vendor setting forth the specific conditions for each allowance or payment. Supplier bonuses which are earned by achieving certain volume purchases are recorded when it is reasonably assured the Group will reach these volumes.

Depending on the arrangement, the Group either recognizes the allowance as a reduction of current costs or defers the payment over the period the related merchandise is sold. If the payment is a reimbursement of specific, incremental and identifiable costs incurred to promote a supplier's products, it is offset against those related costs; otherwise, it is treated as a reduction to the cost of merchandise. Substantially all payments from suppliers are accounted for as a reduction of inventory purchases and recognized in the consolidated statement of profit or loss and other comprehensive income when the related inventory is sold.

Markdown reimbursements related to merchandise that has been sold are negotiated and documented by the Group's buying teams and are credited directly to cost of goods sold in the period received. Vendor allowances received prior to merchandise being sold are deferred and recognized as a reduction of merchandise cost.

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.

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

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

Employee benefits – Remuneration to employees in respect of services rendered during the reporting period is recognized as an expense in that reporting period. The Group contributes to the Russian Federation state pension, medical and social insurance funds on behalf of all its current employees (a defined contribution plan) by paying social security contributions (“SSC”). The Group's only obligation is to pay contributions to the funds as they fall due. As such, the Group has no legal obligation to pay and does not guarantee any future benefits to its Russian employees. Any related expenses are recognized in the consolidated statement of profit or loss and other comprehensive income as they become due. Contribution for each employee varies from 10% to 30% depending on the annual gross remuneration of each employee. The Group does not operate any employer sponsored pension plans.

Dividends – Dividends are recognized as a liability in the period in which they have been declared by the shareholders in a general meeting and become legally payable. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

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

OPEN JOINT STOCK COMPANY “COMPANY “M.VIDEO”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

4. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

The following new or revised standards and interpretations issued by IASB and IFRIC have been published at the date of authorization of the Group’s consolidated financial statements for the year ended 31 December 2014, but are not yet effective:

- IFRS 9 “Financial Instruments”;
- IFRS 14 “Regulatory Deferral Accounts”;
- IFRS 15 “Revenue from Contracts with Customers”;
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations;
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” – Clarification of Acceptable Methods of Depreciation and Amortization;
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” – Agriculture: Bearer Plants;
- Amendments to IAS 19 “Employee Benefits” – Defined Benefit Plans: Employee Contributions;
- Amendments to IAS 27 “Separate Financial Statements” (2011) – Equity Method in Separate Financial Statements;
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” (2011) – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Annual Improvements 2010-2012 Cycle;
- Annual Improvements 2011-2013 Cycle;
- Annual Improvements 2012-2014 Cycle;
- Amendments to IAS 1 “Presentation of Financial Statements” – Disclosure Initiative;
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” (2011): Investment Entities – Applying the Consolidation Exception;
- Editorial Corrections (various).

Of these pronouncements, potentially the following will have an impact on the Group’s consolidated financial statements. The Group is currently assessing the impact of the new standards on its consolidated financial statements and plans to adopt these pronouncements when they become effective or earlier if early application is permitted and it enhances fair presentation of the consolidated financial statements.

IFRS 9 “Financial Instruments”

A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 “Financial Instruments: Recognition and Measurement”. The standard contains requirements in the following areas:

- Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a ‘fair value through other comprehensive income’ category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity’s own credit risk.
- Impairment. The 2014 version of IFRS 9 introduces an ‘expected credit loss’ model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

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

IFRS 9 becomes effective for annual periods beginning on or after 1 January 2018. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. IFRS 15 becomes applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2017.

Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” – Clarification of Acceptable Methods of Depreciation and Amortization

Amends IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets to:

- clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment;
- introduce a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated;
- add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

Applicable to annual periods beginning on or after 1 January 2016.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

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

Annual Improvements 2010-2012 Cycle

Makes amendments to the following standards:

- IFRS 2 – Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition';
- IFRS 8 – Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarifies that reconciliations of segment assets only required if segment assets are reported regularly;
- IFRS 13 – Clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only);
- IAS 16 and IAS 38 – Clarifies that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount;
- IAS 24 – Clarifies how payments to entities providing management services are to be disclosed.

Applicable to annual periods beginning on or after 1 July 2014.

Annual Improvements 2011-2013 Cycle

Makes amendments to the following standards:

- IFRS 1 – Clarifies which versions of IFRSs can be used on initial adoption (amends basis for conclusions only);
- IFRS 3 – Clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself;
- IFRS 13 – Clarifies the scope of the portfolio exception in paragraph 52;
- IAS 40 – Clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

Applicable to annual periods beginning on or after 1 July 2014.

Annual Improvements 2012-2014 Cycle

Makes amendments to the following standards:

- IFRS 5 – Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued;
- IFRS 7 – Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements;
- IAS 9 – Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid;
- IAS 34 – Clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference.

Applicable to annual periods beginning on or after 1 July 2016.

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

Amendments to IAS 1 “Presentation of Financial Statements” – Disclosure Initiative

Amends IAS 1 Presentation of Financial Statements to address perceived impediments to preparers exercising their judgment in presenting their financial reports by making the following changes:

- clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;
- clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarification that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss;
- additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

Effective for annual periods beginning on or after 1 January 2016.

Editorial Corrections (various)

The IASB periodically issues Editorial Corrections and changes to IFRSs and other pronouncements. Since the beginning of calendar 2012, such corrections have been made in February 2012, July 2012, March 2013, September 2013, November 2013, March 2014, September 2014 and December 2014. As minor editorial corrections, these changes are effectively immediately applicable under IFRS.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION OF UNCERTAINTY

In the application of the Group's accounting policies, which have been described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, including, but not limited to, the uncertainties and ambiguities of the Russian legal and taxation systems and the difficulties in securing contractual rights as defined in contracts. Actual results may differ from these estimates.

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

Significant estimates and assumptions

Inventory valuation

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

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

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

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

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

Tax and customs provisions and contingencies

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

Useful life of property, plant and equipment

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

Revenue attributed to loyalty programs

The Group accounts for customer loyalty points as a separate component of the sale transaction in which they are granted. A portion of a fair value of the consideration received from customers is allocated to the award points and deferred, and is recognized then as a revenue over the period that the award credits are redeemed. Therefore, management has to make assumptions about expected redemption rates, which are subject to availability of prior periods’ statistics and significant uncertainty at the balance sheet date, as far as issued points are expired through the passage of time in the future.

Supplier bonuses

The Group receives various types of bonuses from suppliers in the form of cash payments or allowances for various programs, primarily volume incentives and reimbursements for specific programs such as markdowns, margin protection and advertising. Management has concluded that substantially all payments from suppliers are accounted for as a reduction of inventory purchases and recognized in the consolidated statement of profit or loss and other comprehensive income when the related inventory is sold.

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6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at 31 December 2014 and 2013 consisted of the following:

	Buildings	Leasehold improvements	Construction in progress	Trade equipment	Security equipment	Other fixed assets	Total
Cost							
As at 31 December 2012	5,449	4,128	126	3,030	1,081	2,160	15,974
Additions	-	-	2,190	-	-	-	2,190
Transfers	1	568	(2,219)	798	220	632	-
Disposals	-	(76)	-	(69)	(17)	(73)	(235)
As at 31 December 2013	5,450	4,620	97	3,759	1,284	2,719	17,929
Additions	-	-	2,766	-	-	-	2,766
Transfers	37	428	(2,679)	1,084	280	850	-
Disposals	(273)	(98)	-	(160)	(42)	(232)	(805)
As at 31 December 2014	5,214	4,950	184	4,683	1,522	3,337	19,890
Accumulated depreciation and impairment losses							
As at 31 December 2012	1,167	1,935	-	1,371	735	1,121	6,329
Charge for the year	269	585	-	552	212	512	2,130
Disposals	-	(75)	-	(64)	(17)	(70)	(226)
As at 31 December 2013	1,436	2,445	-	1,859	930	1,563	8,233
Charge for the year	251	568	-	641	220	579	2,259
Disposals	(92)	(70)	-	(141)	(40)	(223)	(566)
Recognition of impairment loss	-	12	-	13	1	3	29
As at 31 December 2014	1,595	2,955	-	2,372	1,111	1,922	9,955
Net book value							
As at 31 December 2013	4,014	2,175	97	1,900	354	1,156	9,696
As at 31 December 2014	3,619	1,995	184	2,311	411	1,415	9,935

Depreciation expenses have been included in “Selling, general and administrative expenses” (Note 20).

Assets related to the closed stores with net book value of 239 were disposed off by the Group in the year ended 31 December 2014 (in the year ended 31 December 2013: 9). Loss on disposal of these items of 99 was recorded within other operating expenses (2013: 8).

Impairment of property, plant and equipment

Due to the deterioration in the economic situation in the Russian Federation as a result of sanctions imposed on certain Russian officials, businessmen and companies and adverse tendency in oil markets that caused significant drop in national currency exchange rate there have been certain indicators which required the Group to review its non-current assets for impairment at the balance sheet date. The Group performed an impairment test for all CGUs representing each city in which the Group’s stores are located. The recoverable amount of the CGUs has been determined based on value in use calculation using cash flow projections based on financial budgets approved by the Board of Directors for the next year and projected growth rates for next four years with reference to gross regional domestic product for the regions where the Group operates and expected inflation for the Group’s merchandise. These growth rates are ranging from 3% to 5% and the expected long-term inflation is 5%. Cash flows beyond the five-year period were extrapolated using a long-term growth rate of 5%.

The post-tax discount rate used in calculations for 2014 FY was 19.20%. It is based on the Group’s weighted average cost of capital and reflects management’s estimates of the risks associated with the investments into the Group. In determining appropriate discount rate regard has been given to published analyst research with respect to the Group.

The recoverable amount of each individual CGU was compared with its carrying amount. As a result an impairment loss of 29 was recognized and included in selling, general and administrative expenses (Note 20). The impairment loss relates primarily to leasehold improvements and other assets of the stores which are due for closing in 2015.

The management has concluded that the results of impairment test are not sensitive to the changes of any assumptions.

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7. INTANGIBLE ASSETS

Intangible assets as at 31 December 2014 and 2013 consisted of the following:

	Software licenses, development and web site	Trademarks	Total
Cost			
As at 31 December 2012	2,786	25	2,811
Additions	1,600	1	1,601
Disposals	(156)	(1)	(157)
As at 31 December 2013	4,230	25	4,255
Additions	1,640	1	1,641
Disposals	(503)	-	(503)
As at 31 December 2014	5,367	26	5,393
Accumulated amortization			
As at 31 December 2012	710	9	719
Charge for the year	502	1	503
Disposals	(156)	(1)	(157)
As at 31 December 2013	1,056	9	1,065
Charge for the year	518	3	521
Disposals	(503)	-	(503)
As at 31 December 2014	1,071	12	1,083
Net book value			
As at 31 December 2013	3,174	16	3,190
As at 31 December 2014	4,296	14	4,310

During 2014 the Group incurred expenditures in the total amount of 1,640 which for the most part related to the development of the new front-office / back-office system, the new web site platform and additional functionality of the Group's ERP system SAP R/3.

Amortization expenses have been included in “Selling, general and administrative expenses” (Note 20).

As at 31 December 2014 and 2013 the Group had commitments for the technical support of software licenses (Note 28).

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8. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Long-term advances paid for rent	581	546
Advances paid for non-current assets	49	145
Long-term loans and notes receivable	38	47
Long-term part of warranty asset – in respect of Additional Service Agreements (ASA, sold prior to 1 October 2011)	1	5
Less: allowance for doubtful long-term advances paid for rent	<u>(33)</u>	<u>(36)</u>
Total	<u>636</u>	<u>707</u>

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

	<u>2014</u>	<u>2013</u>
Balance at the beginning of the year	36	42
Impairment losses recognised on long-term advances paid for rent	11	-
Amounts recovered during the year	(4)	(2)
Amounts written off as uncollectible	<u>(10)</u>	<u>(4)</u>
Balance at the end of the year	<u>33</u>	<u>36</u>

9. INVENTORIES

Inventories as at 31 December 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Goods for resale	36,079	35,500
Other inventories	215	230
Less: allowance for obsolete and slow-moving inventories	<u>(860)</u>	<u>(1,515)</u>
Total	<u>35,434</u>	<u>34,215</u>

Cost of inventories recognised as an expense in the amount of 123,173 and 106,598 and inventory losses net of surpluses in the amount of 284 and 483 for the years ended 31 December 2014 and 2013, respectively, were recorded within cost of sales in the consolidated statement of profit or loss and other comprehensive income.

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10. ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

Accounts receivable and prepaid expenses as at 31 December 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Bonuses receivable from suppliers	9,425	7,807
Other accounts receivable	996	805
Advances paid to suppliers and prepaid expenses	515	580
Advances paid to related parties (Note 26)	7	25
Less: allowance for doubtful accounts receivable and prepaid expenses	<u>(73)</u>	<u>(66)</u>
Total	<u>10,870</u>	<u>9,151</u>

As at 31 December 2014 and 2013 the Group did not have accounts receivable past due but not impaired.

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

	<u>2014</u>	<u>2013</u>
Balance at the beginning of the year	66	116
Impairment losses recognized on accounts receivable	63	28
Amounts recovered during the year	(19)	(21)
Amounts written off as uncollectible	<u>(37)</u>	<u>(57)</u>
Balance at the end of the year	<u>73</u>	<u>66</u>

The accounts receivable impaired as at 31 December 2014 were aged 120+ days (31 December 2013: 120+ days).

In determining the recoverability of accounts receivable the Group considers any change in the credit quality of receivables and prepaid expenses from the date credit was initially granted up to the reporting date. Details about concentration of credit risk and related management activities are provided in Note 29.

11. OTHER TAXES RECEIVABLE

Other taxes receivable as at 31 December 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
VAT recoverable	1,098	1,433
Other taxes receivable	<u>2</u>	<u>3</u>
Total	<u>1,100</u>	<u>1,436</u>

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12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Short-term bank deposits	23,433	8,200
Cash at banks	1,342	1,927
Cash in transit	985	1,046
Petty cash and cash in stores	362	369
Total	<u>26,122</u>	<u>11,542</u>

Cash at banks as at 31 December 2014 and 2013 includes the amounts of 336 and 70, respectively, collected by the Group from its customers for further transfer through “Rapida” payment system. The Group cannot use this cash in its operating activities as it is due to be transferred to the recipients.

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

Breakdown of short-term bank deposits as at 31 December 2014 is presented in the table:

	<u>Interest rate</u>	<u>Maturity</u>	<u>2014</u>
Short-term bank deposits in RUB	11.90%-24.5%	January-February 2015	22,018
Short-term bank deposits in USD	3.40%-3.60%	January-March 2015	1,073
Short-term bank deposit in EUR	3.15%	January 2015	342
Total			<u>23,433</u>

As at 31 December 2013 all short-term bank deposits were denominated in RUB, earned interest ranging from 5.50% to 7.00% per annum and matured in January – February 2014.

13. EQUITY

Share capital

As at 31 December 2014 and 2013 the Company had the following number of authorized, issued and outstanding ordinary shares:

	<u>Outstanding ordinary shares</u>	<u>Issued ordinary shares</u>	<u>Authorized ordinary shares</u>
Balance as at 31 December 2014 and 2013	178,263,237	179,768,227	209,768,227

Each share has par value of 10 RUB per share. During 2014 and 2013 there were no changes in the number of authorized and issued ordinary shares of the Company. All issued ordinary shares were fully paid.

Additional paid-in capital

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

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13. EQUITY (CONTINUED)

Treasury shares

In September 2010 following the approval by the Board of Directors, the Group purchased 2,700,000 issued ordinary shares of the Company to be subsequently offered to the members of the Long-term incentive plan Series 3 (“LTIP 3”) (Note 25) in order to service the resulting subscription rights, for total cash consideration of 588. Of them 1,195,010 shares were transferred to the participants of LTIP 3 Part 1 upon exercise of the options in April 2013. Accordingly, the amount of treasury shares reported as at 31 December 2014 related to the remaining 1,504,990 shares held as treasury shares at cost.

Dividends declared

On 17 June 2014 the Annual General Meeting approved dividends of 20 RUB per share in respect of 2013.

On 5 December 2014 the Extraordinary General Meeting approved dividends of 25 RUB per share in respect of 9 months of 2014.

Dividends attributable to the treasury shares were eliminated in full for the purpose of these consolidated financial statements. After the approval, dividends payable to the holders of outstanding ordinary shares of the Company were recognized as a reduction of shareholders’ equity in these consolidated financial statements in the total amount of 8,028, including related taxes accrued.

14. INCOME TAX

The Group’s income tax expense for the years ended 31 December 2014 and 2013 was as follows:

	<u>2014</u>	<u>2013</u>
Current tax		
Current tax expense in respect of the current year	(3,106)	(1,814)
Release in provision for income tax (Note 28)	-	123
	<u>(3,106)</u>	<u>(1,691)</u>
Deferred tax		
Deferred tax benefit recognised in the current year	627	225
Adjustments recognised in the current year in relation to deferred tax of prior years	-	315
	<u>627</u>	<u>540</u>
Total income tax expense recognised in the current year	<u><u>(2,479)</u></u>	<u><u>(1,151)</u></u>

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14. INCOME TAX (CONTINUED)

The tax effect on the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2014 and 2013 is presented below:

	<u>2014</u>	<u>2013</u>
Deferred tax assets		
Accrued expenses	1,078	651
Supplier bonuses allocated to inventories	934	955
Deferred revenue	566	387
Salary-related accruals	291	174
Difference in depreciable value of property, plant and equipment	212	120
Allowance for obsolete and slow-moving inventories	172	303
Allowance for doubtful long-term advances paid for rent, accounts receivable and prepaid expenses	21	20
Other items	34	33
Total	<u>3,308</u>	<u>2,643</u>
Deferred tax liabilities		
Difference in depreciable value of intangible assets	111	72
Other items	-	1
Total	<u>111</u>	<u>73</u>
Deferred tax assets, net	<u>3,197</u>	<u>2,570</u>

As at 31 December 2014 and 2013 the Group measured deferred tax assets and deferred tax liabilities using tax rate of 20%, which is the rate expected to be applied in the period in which the asset is realized or the liability is settled.

The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the profit before income tax expense. Below is a reconciliation of theoretical income tax expense at the statutory rate of 20% effective for 2014 and 2013 to the actual expense recorded in the Group’s consolidated statement of profit or loss and other comprehensive income:

	<u>2014</u>	<u>2013</u>
Profit before tax	<u>10,468</u>	<u>6,880</u>
Income tax expense calculated at 20%	(2,094)	(1,376)
Effect of expenses that are not deductible in determining taxable profit:		
Inventory losses	(89)	(121)
Loss on conversion of cash into foreign currency (Note 22)	(61)	-
Provision for taxes other than income tax (Note 28)	(60)	-
Other non-deductible expenses, net	(175)	(92)
	<u>(2,479)</u>	<u>(1,589)</u>
Release in provision for income tax (Note 28)	-	123
Adjustments recognised in the current year in relation to deferred tax of prior years	-	315
Income tax expense recognised in profit or loss	<u>(2,479)</u>	<u>(1,151)</u>

As at 31 December 2014 there were no taxable temporary differences related to investments in subsidiary for which deferred tax liabilities might have been recognized if the Group had not been in a position to control the timing of the reversal of these temporary differences (31 December 2013: nil).

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15. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as at 31 December 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Rent and utilities	4,323	2,465
Salaries and bonuses	1,224	807
Property, plant and equipment and intangible assets	556	545
Other current liabilities to related parties (Note 26)	96	31
Other	695	700
Total	<u>6,894</u>	<u>4,548</u>

As at 31 December 2014 accounts payable and accruals for rent and utilities included accrued liabilities for lease payments calculated on a straight-line basis over the lease term in the amount of 3,668 (31 December 2013: 2,078).

Salaries and bonuses at 31 December 2014 include accrued termination benefits of 345 (31 December 2013: nil). These have been accrued as a result of measures taken by the Group for store personnel optimization and a decision to close several stores in 2015. Both decisions were approved by the Board of Directors and communicated to those affected in December 2014.

16. ADVANCES RECEIVED

Advances received as at 31 December 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Prepayments received for goods (i)	3,441	-
Advances received for gift cards	884	1,063
Other advances received	97	70
Total	<u>4,422</u>	<u>1,133</u>

(i) Prepayments received for goods represent cash received for goods which have not yet been delivered to customers at the reporting date. These relate mostly to online sales and goods sold in stores for future delivery.

17. OTHER TAXES PAYABLE

Other taxes payable as at 31 December 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
VAT payable	787	122
Payroll taxes	505	283
Other taxes payable	96	101
Total	<u>1,388</u>	<u>506</u>

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18. DEFERRED REVENUE

Deferred revenue as at 31 December 2014 and 2013 consisted of the following:

	2014			2013		
	Customer loyalty programs	Other programs	Additional services	Customer loyalty programs	Other programs	Additional services
As at 1 January	788	1,146	2,621	1,465	900	2,322
Revenue deferred during the period	5,865	2,501	2,033	4,139	1,393	2,032
Revenue released to the consolidated statement of profit or loss and other comprehensive income	(5,452)	(2,516)	(2,017)	(4,816)	(1,147)	(1,733)
As at 31 December	1,201	1,131	2,637	788	1,146	2,621

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

19. REVENUE

Revenue for the years ended 31 December 2014 and 2013 consisted of the following:

	2014	2013
Retail revenue	168,310	144,818
Additional services revenue	2,017	1,733
Other services	1,860	1,491
Total	172,187	148,042

Retail revenue includes sales of goods in stores, pick-up in stores, internet home-delivery and commission fees.

Other services include revenue from services of installation, digital assistant and utilization.

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20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Payroll and related taxes	11,084	9,678
Lease expenses, net of income from sublease (2014: 33; 2013: 24)	9,693	7,422
Advertising and promotional expenses, net	3,923	3,942
Depreciation, amortization and impairment loss	2,809	2,633
Warehouse services, including related lease expenses	2,375	2,204
Utilities expense	1,705	1,491
Bank charges	1,283	1,034
Security	971	935
Transportation to customers	957	984
Repair and maintenance	940	891
Consulting services	884	663
Taxes other than income tax, including tax provisions (Note 28)	534	310
Other expenses	1,267	1,379
Total	<u>38,425</u>	<u>33,566</u>

Payroll and related taxes for the year ended 31 December 2014 include 1,656 contribution to the state pension fund (2013: 1,425) and social and medical insurance in the amount of 602 (2013: 504).

During 2014 the Group received 278 from its suppliers as a compensation of advertising and promotional expenses (2013: 363).

21. OTHER OPERATING INCOME

Other operating income for the years ended 31 December 2014 and 2013 includes commissions received from banks on loans provided to customers, income earned from suppliers for advertising materials placed in the Group's stores, goods delivery, income from leases and other items.

22. OTHER OPERATING EXPENSES

Other operating expenses for the year ended 31 December 2014 include loss of 306 (2013: nil) arising from conversion of cash in Russian Rubles into foreign currencies at bank rates different from the Central Bank of the Russian Federation official exchange rate, loss on disposal of property, plant and equipment of 99 (2013: 8) and other individually insignificant items.

23. FINANCE INCOME, NET

Finance income/(expenses), net for the years ended 31 December 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Interest income on bank deposits	436	139
Interest expense on bank loans	(68)	(26)
Total	<u>368</u>	<u>113</u>

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24. EARNINGS PER SHARE

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

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

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

	<u>2014</u>	<u>2013</u>
Net profit attributable to equity holders of the Company	7,989	5,729
Weighted average number of ordinary share in issue (millions of shares)	178.26	177.94
Effect of share options granted to employees (millions of shares)	1.28	1.83
Basic earnings per share (in Russian rubles)	44.82	32.20
Weighted average number of ordinary shares for the purpose of diluted earnings per share (millions of shares)	179.54	179.77
Diluted earnings per share (in Russian rubles)	44.50	31.87

25. SHARE-BASED PAYMENTS

Employee share option plan

The Group had one equity-settled share option plan in operation during the years ended 31 December 2014 and 2013.

Long-term incentive plan Series 3 (LTIP 3)

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

Summary of the arrangements in existence as at 31 December 2014 and 2013

The following table contains details of the arrangements that were in existence as at 31 December 2014 and 2013:

Option series	Number of options as at 31 December 2014	Number of options as at 31 December 2013	Grant date	Vesting date	Expiry date	Exercise price (RUB)	Fair value at grant date (RUB)
LTIP 3							
Issued 9 December 2009	1,160,000	1,395,000	9 December 2009	1 April 2015	30 April 2015	-	118.49

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25. SHARE-BASED PAYMENTS (CONTINUED)

Movements in share options during the period

The following reconciles the outstanding share options granted under the employee share plan at the beginning and end of the years ended 31 December 2014 and 2013:

	LTIP 3	
	Number of options expected to vest	Weighted average exercise price (RUB)
Balance as at 1 January 2013	2,615,010	-
Forfeited during the period	(25,000)	-
Exercised during the period	(1,195,010)	-
Balance as at 31 December 2013	1,395,000	-
Balance as at 1 January 2014	1,395,000	-
Forfeited during the period	(235,000)	-
Balance as at 31 December 2014	1,160,000	-

The weighted average remaining contractual life of the share options granted under LTIP 3 outstanding as at 31 December 2014 was 91 days (31 December 2013: 456 days).

Fair value of share options

The weighted average fair values of the share options granted under LTIP 3 and outstanding as at 31 December 2014 and 2013 were as follows (in RUB):

Option series	31 December 2014	31 December 2013
LTIP 3	118.49	118.48

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

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

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

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25. SHARE-BASED PAYMENTS (CONTINUED)

Share-based payments expense

The summary of expenses recognized by the Group in respect of share-based payments in the years ended 31 December 2014 and 2013 is as follows:

Option series	For the year ended	
	31 December 2014	31 December 2013
LTIP 3	1	43
Total	1	43

The amount for the year ended 31 December 2014 represents an expense of 22 less a true up adjustment of 21 relating to reversal of expenses previously recognized for the shares forfeited during the year ended 31 December 2014. The above expense has been included into “Selling, general and administrative expenses” in the line item “Payroll and related taxes” (Note 20).

26. RELATED PARTIES

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

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year and the outstanding balances owed by / to related parties as at 31 December 2014 and 2013, respectively:

	2014		31 December 2014		2013		31 December 2013	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Entities under common control (except otherwise noted)								
Transservice Group of Companies	-	357	7	62	-	289	25	20
LLC “Private Security Agency Bars-SB”	2	264	-	5	1	252	-	1
Avtorit Group of Companies	1	86	-	20	1	69	-	1
LLC “Avto-Express”	-	37	-	3	-	68	-	5
LLC “Noviy Format”	-	30	-	6	-	27	-	3
LLC “TechnoVideoService”	-	11	-	-	-	9	-	1
CONplementation International business Consulting Vienna	-	10	-	-	-	-	-	-
LLC “MV. Stil”	1	-	-	-	1	-	-	-
LLC “Universal service”	-	-	-	-	-	1	-	-
Total	4	795	7	96	3	715	25	31

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26. RELATED PARTIES (CONTINUED)

The nature of transactions with related parties is as follows:

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

The ultimate parent entity

“M.video Investment Ltd.” is the ultimate parent entity of the Group. There were no transactions between the Group and the ultimate parent entity during the years ended 31 December 2014 and 2013.

Immediate parent entity

“Svece Limited” owns 57.6755% of the ordinary shares of OJSC “Company “M.video” as at 31 December 2014 (57.6755% as at 31 December 2013). Refer to Note 1 for additional information on the ultimate shareholders of the Group.

Terms and conditions of transactions with related parties

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Outstanding balances at the year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party accounts receivable or payable. No impairment of accounts receivable relating to amounts owed by related parties has been recorded for the year ended 31 December 2014 (for the year ended 31 December 2013: 4). 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.

Compensation of key management personnel of the Group

The remuneration of directors and other members of key management during the years ended 31 December 2014 and 2013 was as follows:

	<u>2014</u>	<u>2013</u>
Short-term benefits*	368	319
Share-based payments**	-	14
Total	<u>368</u>	<u>333</u>

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

** Amounts related to the participation of the key management personnel in the incentive scheme posted in the consolidated statement of profit or loss and other comprehensive income (Note 25).

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26. RELATED PARTIES (CONTINUED)

As at 31 December 2014 there were 74 outstanding payable to key management personnel (2013: 113).

The number of key management positions was 15 in 2014 (2013: 17).

The Group did not provide any material post-employment or other long-term benefits to key management personnel during the period other than contributions to the state pension fund and the social funds as a part of payments of social security contributions on salaries and bonuses. SSC paid relating to compensation of key management personnel amounted to 21 for the year ended 31 December 2014 (SSC paid in 2013 was 20) and is included in the amounts stated above.

27. OPERATING LEASE AGREEMENTS

The Group enters into long-term leases for the stores for the periods from 1 to 20 years. Some of these leases are not able to be fully registered and thus legally enforceable until the landlord is able to produce all valid ownership papers and therefore are arranged as 11-month rolling leases; at the same time some of the long-term lease contracts contain cancellation clauses. The Group classifies all of these store leases as non-cancellable as it is the intent, and experience, that these leases will be kept until the expiration of the agreement term.

Certain lease contracts stipulate terms requiring the Group to pay the higher amount of minimum lease payments or a percentage of revenue. The amounts paid in excess of the minimum lease payments are disclosed as contingent rentals below. The Group does not have an option to purchase the leased premises at the expiration of the lease period.

Payments recognized as an expense

	<u>2014</u>	<u>2013</u>
Minimum lease payments	9,153	7,037
Contingent rentals	573	409
Total	<u>9,726</u>	<u>7,446</u>

Non-cancellable operating lease commitments

Future minimum rentals payable under non-cancellable operating leases for premises occupied as at 31 December 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Within one year	8,944	6,191
After one year but not more than five years	30,547	22,754
More than five years	22,783	17,813
Total	<u>62,274</u>	<u>46,758</u>

Future minimal rental payments will be subject to VAT.

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28. COMMITMENTS AND CONTINGENCIES

Operating environment

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

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the Group's financial position.

Starting from March 2014, sanctions have been imposed in several packages by the U.S., E.U. and other governments on certain Russian officials, businessmen and companies. International credit agencies downgraded Russia's long-term foreign currency sovereign rating with a negative outlook. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. The exchange rate of the Russian Ruble depreciated significantly. These developments may result in reduced access of the Russian businesses to international capital and export markets, capital flight, further weakening of the Ruble and other negative economic consequences.

The impact of further political and economic developments in Russia on future operations and financial position of the Group is at this stage difficult to determine.

Russian Federation tax and regulatory environment

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, laws and regulations affecting business continue to change rapidly. These changes are characterized by unclear wording which leads to different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities.

Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has accrued for all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant.

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28. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Group obtains various types of supplier bonuses. Prior to 1 July 2013 the VAT legislation of the Russian Federation provided no guidance with regards to the assessment and payment of VAT related to bonuses from suppliers and the respective court practice was controversial. In April 2013 an amendment to the Tax Code was adopted in Russia with the purpose to clarify the VAT rules going forward. The amendment is effective 1 July 2013 and does not apply retrospectively. The Group believes that it has correctly interpreted the current tax legislation with regard to this issue in accordance with the accepted industry practice both before and after 1 July 2013.

During 2014 the Group recognized an additional tax provision for VAT of 300 (2013: no additional tax provisions for income and other taxes was recognized and 123 of tax provision for income tax recognized previously was released) which was recorded within Selling, General and Administrative expenses (Note 20) in the consolidated statement of profit or loss and other comprehensive income and in current provisions in the consolidated statement of financial position.

The Group has also identified possible tax contingencies for the three-year period ended 31 December 2014. Management has estimated that possible exposure in relation to such tax risks, if they were to materialize, would not exceed half the amount of the Group's profit before income tax expense.

Customs

During the years ended 31 December 2014 and 2013, 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 the Russian Federation directly. As the Group was not involved in clearing customs for the goods purchased on the territory of the Russian Federation, management cannot be certain that the entities which imported the goods into the Russian Federation were in full compliance with the applicable regulations of the Russian customs code.

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

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

License agreements

As at 31 December 2014, the Group had a total commitment of approximately 135.5 – 172.2 million RUB per annum for technical support services with respect to existing SAP licenses and software during the period from 2014 to 2016 (31 December 2013: approximately 2.7 – 2.9 million EUR per annum, or 119.7 – 132.6 million RUB per annum using exchange rate published on the Central Bank web site of 44.9699 RUB/EUR as at 31 December 2013).

The Group uses SAP software for finance, supply chain and human resources functions.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in millions of Russian Rubles)

28. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Litigation

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

Environmental matters

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

Financial guarantees

In the normal course of its operating activity the Group from time-to-time enters into financial guarantee contracts with banks. Under these contracts banks provide guarantees in favour of the Group's suppliers and the Group may be required to pay under those contracts only if it fails to make timely payments to its suppliers. As at 31 December 2014 the Group entered into such guarantee contracts for the total amount of 1,425 (2013: 1,254). The Group has not pledged any assets (2013: none) as collateral under these guarantee contracts.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. No changes were made in objectives, policies or processes during the years ended 31 December 2014 and 2013.

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

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29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The primary objective of the Group's capital management program is to maximize shareholder value while minimizing the risks associated with the loan portfolio. The consumer electronics business is a cyclical business and as such requires short-term fluctuations in capital to purchase goods to satisfy the seasonal demand. The Group uses a combination of short-term loans and supplier credit terms to meet the seasonal capital needs. The store expansion program adds to the capital needs as the capital and pre-opening costs associated with the new stores put 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 its capital needs periodically to determine actions to balance its overall capital structure through shareholders' capital contributions or new share issues, return of capital to shareholders as well as the issue of new debt or the redemption of existing debt.

Significant accounting policies

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

Categories of financial instruments

The carrying values of financial assets and liabilities grouped by each category of financial instruments as at 31 December 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Financial assets		
Loans and receivables (including cash and cash equivalents)	36,581	20,201
Financial liabilities		
Liabilities carried at amortized cost	60,654	49,629

Foreign currency risk management

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group's exposures to foreign currency risk arise from cash and cash equivalents held in US Dollars and Euro as well as from lease payments tied-in to currencies other than functional currency. At 31 December 2014 approximately 33% (at 31 December 2013: 30%) of the Group's operating lease agreements for stores and warehouses were tied-in to either US Dollars or Euro and these contracts accounted for approximately 43% (2013: 39%) of the Group's operating lease expenses for the year ended 31 December 2014. The Group minimizes, to the extent possible, the risk arising from foreign currency-denominated lease contracts by negotiating a fixed exchange rate or a cap for an exchange rate with the lessors.

During the year ended 31 December 2014 the Group did not use forward exchange contracts to eliminate the currency exposures. During the year ended 31 December 2013 the Group used forward exchange contracts to mitigate foreign currency risk.

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29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The carrying amount of the Group’s foreign currency-denominated assets and liabilities at the reporting date are as follows:

	US Dollar		Euro	
	2014	2013	2014	2013
Assets				
Cash and cash equivalents	1,074	13	346	-
Total assets	1,074	13	346	-
Liabilities				
Accounts payable and accruals for operating leases (shown within other accounts payable)*	(1,553)	(631)	(308)	(108)
Total liabilities	(1,553)	(631)	(308)	(108)
Total net position	(479)	(618)	38	(108)

* Although accrued liabilities for lease payments calculated on a straight-line basis over the lease term do not represent financial instruments they have been included in the table above since they subject the Group to foreign currency risk.

Foreign currency sensitivity analysis

As mentioned above, the Group is mainly exposed to changes in the exchange rates of the US Dollar and Euro. The following table details the Group’s sensitivity to a 20% change of the Russian Ruble against these two currencies. 20% is the sensitivity rate represents management’s assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated assets and liabilities at year end and adjusts their translation for a 20% movement in foreign currency exchange rates. Positive numbers below indicate an increase in profit and respective increase in equity where the Russian Ruble appreciates against the relevant currency. For a 20% depreciation of the Russian Ruble against the relevant currency, there would be an equal and opposite impact on profit and equity.

	USD		EUR	
	Changes in exchange rate, %	Effect on profit before income tax	Changes in exchange rate, %	Effect on profit before income tax
2014	+20%	(96)	+20%	7
	-20%	96	-20%	(7)

	USD		EUR	
	Changes in exchange rate, %	Effect on profit before income tax	Changes in exchange rate, %	Effect on profit before income tax
2013	+20%	(123)	+20%	(22)
	-20%	123	-20%	22

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29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk management

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Management believes that this risk is not significant because as at 31 December 2014 the Group does not have any borrowings or other financial liabilities bearing floating interest rates (31 December 2013: none).

Credit risk management

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

Bonuses receivable from suppliers are either offset against respective accounts payable or paid in cash. At 31 December 2014 bonuses receivable from three major suppliers comprised 42% of the Group's consolidated accounts receivable and prepaid expenses (31 December 2013: 44%). The Group believes no significant credit risk is associated with these receivables since all of the debtors are represented by the Group's major suppliers.

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

The table below shows the balances that the Group had with 5 of its major counterparties as at 31 December 2014 and 2013:

Counterparty	Currency	Rating	Carrying amount	
			2014	2013
Sberbank	RUB	Ba1	10,859	7,599
Alfa-bank	RUB	Ba1	9,394	-
VTB	RUB	Ba1	4,106	900
Gazprombank	RUB	Ba1	388	1,051
Credit Bank of Moscow	RUB	B1	28	377
Nonbanking credit company Rapida	RUB	-	-	200
Total			24,775	10,127

The carrying amount of financial assets recorded in the consolidated statement of financial position, which is net of impairment losses, represents the Group's maximum exposure to credit risk. There were no other concentrations of credit risk as at 31 December 2014 (31 December 2013: none).

Liquidity risk management

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

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29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The Group's objective is to maintain a continuity of funding and flexibility through the use of bank overdrafts and bank loans. Each year the Group analyses its funding needs and anticipated cash flows, so that it can determine its funding obligations. The seasonality of the business, the store expansion plan, capitalized projects and the anticipated working capital requirements form the basis of the evaluation. When necessary the Group uses long-term instruments (loans and borrowings) to cover its base liquidity needs. The Group uses short-term loans and bank overdrafts to cover seasonality needs. Every quarter the Group updates its liquidity needs and secures facilities with several banks to ensure that the Group has a sufficient amount of approved undrawn borrowing facilities.

As at 31 December 2014 the Group had obtained uncommitted standby borrowing facilities in the total amount of 11,000 (31 December 2013: 9,500).

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December 2014 and 2013 based on contractual undiscounted payments:

As at 31 December 2014	Less than 3 months	Total
Trade accounts payable	48,940	57,428
Other accounts payable and accrued expenses	3,226	3,226
Total	52,166	60,654
As at 31 December 2013	Less than 3 months	Total
Trade accounts payable	41,289	47,159
Other accounts payable and accrued expenses	2,470	2,470
Total	43,759	49,629

Fair value of financial instruments

Management consider that the carrying amounts of financial assets and financial liabilities reflected in the Group's consolidated statement of financial position as at 31 December 2014 and 2013 approximate their fair values.

30. SUBSEQUENT EVENTS

On 25 March 2015 the Group's Board of Directors approved a decision to grant additional share options to participants of LTIP 3. This decision entitles each participant of LTIP 3 to increase his/her holding of the Group's shares by 10%. The additional grant will vest on 1 April 2015.

On 25 March 2015 the Group's Board of Directors also approved a new employee long-term incentive plan ("LTIP 4"). Under the conditions of the LTIP 4 certain employees are entitled to cash-settled share-based compensation during a five-year period commencing 1 January 2015 provided the Group meets certain performance targets and contingent on continued employment within the Group.