



НАМ НЕ ВСЁ РАВНО

**APPROVED**

By the Board of directors  
of the Open joint-stock company «Company M.video»

Chairman of the Board of the  
Open joint-stock company «Company M.video»

[signature] /P.Gyoerffy/  
(Minutes No. 81/2013 dated December 12, 2013)

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke at the end.

**REGULATION  
ON INTERNAL CONTROL  
OF FINANCIAL AND OPERATING ACTIVITY**

**Open joint-stock company  
«Company «M. Video»**

**Moscow, 2013**

## GENERAL PROVISIONS

- 1.1. The present Regulation on internal control of financial and operating activity (hereinafter referred to as “Regulation”) of the OJSC “Company “M.video” and its subsidiaries and dependent companies (hereinafter referred to as “the Company(ies)”) is adopted in accordance with the applicable law of the Russian Federation, Charter of the Company (hereinafter referred to as “the Charter”) and other governing internal documents of the Company.
- 1.2. The purpose for adoption of this Regulation is to define principles, procedures and measures implemented as part of the Company’s internal control system to secure the interests of the Company’s shareholders and the Company’s assets and to strengthen the credibility of the Company and its governing bodies among investors.

## 2. DEFINITIONS, AIMS AND PROCUDERS OF INTERNAL CONTROL SYSTEM

- 2.1. Internal control system is an integral part of the Company’s governance system which allows making decisions focused on the improvement of financial and business operations, immediate discovery and identification, prevention and restriction of financial and business risks.

2.1.1. *Internal control system* (hereinafter referred to as the “ICS”) is a system of controlling procedures on development, adoption and implementation of internal control procedures and on efficiency evaluation of such procedures arranged and performed by the governing bodies, departments (business units), officers and other employees of the Company(ies) (hereinafter referred to as the “internal control bodies”) in order to secure reasonable guaranty on Company’s achievement of its goals and targets in:

- efficiency in operating activity of the Company(ies);
- reliability and consistency of reports (all types) of the Company(ies);
- compliance with legal requirement applicable to the Company(ies);

2.1.2. *Control procedure (or “control”)* is a set of actions and measures performed by employees of the Company(ies) and designed to warn, limit and prevent a certain risk. *Risk* is a probability of negative impact of any event or action on Company's ability to achieve its business goals and to follow its selected strategy. Control procedures are integral parts of financial and operating activity of the Company(ies).

- 2.2. To secure the interests of the Company’s shareholders, protect the Company’s assets and maintain the credibility of the Company and its governing bodies among investors, the Company’s internal control pursues the following objectives:

- 2.2.1. timely disclosure, identification and analysis of the risks associated with the Company’s activity;
- 2.2.2. maintenance of reliable, full, correct and timely financial and business reporting by the Company;
- 2.2.3. maintenance of high performance – both financial and business;
- 2.2.4. secure maintenance of the Company’s assets and efficient use of the Company’s (ies)’ assets and other resources;
- 2.2.5. construction of the effective organization structure of the Company (ies);
- 2.2.6. compliance with legal requirement applicable to of the Company(ies).

## 3. STRUCTURE OF THE INTERNAL CONTROL SYSTEM

- 3.1. Internal control of financial and operating activity of the Company(ies) is arranged at 3 (three) levels of governance (management) in the Company(ies).
  - 3.1.1. Upper level includes internal control bodies performing monitoring and operational efficiency evaluation functions of the Company’s (ies)’ internal control system:

- Revision commission;
  - Department (business unit) of the Company(ies) performing function of the internal audit (hereinafter referred to as the “Internal audit”).
- 3.1.2. Middle level includes internal control bodies performing function related to the arrangement, maintenance and support of the Company’s internal control system:
- Sole executive body;
  - Top managers (directors/heads of departments);
  - Departments (business units) of the Company(ies) performing special types of controlling functions such as arrangement and coordination of Company’s(ies)’ control procedures unification, revision, investigation of in cases of abusive practice or actions, conflicts of interests and etc. (hereinafter referred to as the “Specialized departments”).
- 3.2.3. Basic level includes internal control bodies exercising regular application of the Company's(ies)’ policies (standards) for carrying financial and operating activity:
- Middle managers (heads of units, groups)
  - Employees
- 3.2. The Board of Directors of the Company holding a special place defines general strategy of the ICS, reviews results of the ICS efficiency assessment, reviews and gives recommendations for the ICS improvement.

#### **4. OPERATION OF INTERNAL CONTROL BODIES**

- 4.1. The Company’s internal control system is based on segregation of the authority of the Company’s(ies)’ governing bodies which from the internal control system and which are in charge of development, adoption and implementation of internal control procedures and evaluation of its efficiency.
- 4.2. The scope of authority of the Company’s Board of Directors through its Audit Committee in the sphere of internal control includes:
- 4.2.1. participation in the assessment of internal control operation effectiveness and review of proposals on Company’s(ies)’ internal control procedures improvement;
  - 4.2.2. review reports of the Head of Internal audit on the condition of the internal control system and proposals to eliminate any defects which are revealed in the internal control procedures;
  - 4.2.3. review reports of the independent auditor on the timeliness and reliability of Company’s(ies)’ financial statements;
  - 4.2.4. participate in development of the guidelines and recommendations for Company’s risk management in the sphere of financial and operating activity.
- 4.3. On the upper level, the scope of authority of the Company’s Revision Commission in the sphere of internal control includes:
- 4.3.1. periodic control of financial and operating activity of the Company(ies), of the governing bodies and officers of the Company(ies) by conducting documentary and actual audits (reviews) of: legitimacy, economic feasibility and efficiency of the Company’s(ies)’ financial and business operations; completeness and accuracy of financial and business operations’ recording; legitimacy, economic feasibility and efficiency of Company’s(ies)’ governing bodies activity, and compliance of this activity with the law of the Russian Federation, Company’s(ies)’ Charter and other internal governing documents, approved plans and programs of the Company(ies);

- 4.3.2. participation in evaluation of the ICS efficiency by including it in the reports on the results of inspections (examinations) which also shall contain information on any breaches revealed and provide recommendations on its improvement.
- 4.4. On the upper level, the scope of authority of the Company's(ies)' Internal audit in the sphere of internal control includes:
- 4.4.1. monitoring the compliance with the internal control procedures (including regulations (standards) on the Company's(ies)' financial and business operations) by means of independent audits (checks);
  - 4.4.2. participation in evaluation of the ICS efficiency;
  - 4.4.3. proposals to the Audit Committee under the Company's Board of Directors or the Sole executive body to eliminate the defects revealed in the internal control procedures; checks the implementation of the follow-up measures on the elimination of the defects;
  - 4.4.4. participation in discovery and evaluation of risks associated with the Company's(ies)' financial and operating activity;
  - 4.4.5. provision of advisory services in the course of drafting the Company's(ies)' regulations (standards) on financial and operating activity.
- 4.5. On the middle level, the scope of authority of the Company's Sole executive body in the sphere of internal control includes:
- 4.5.1. responsibility for the Company's (ies)' ICS implementation;
  - 4.5.2. adoption of policies (standards) regulating financial and operating activity of the Company(ies), and participation in its drafting once needed;
  - 4.5.3. arrangement of implementation and compliance with the policies (standards) regulating Company's(ies)' financial and operating activity;
  - 4.5.4. review reports of the Head of Internal audit on the condition of the ICS containing proposals to eliminate any defects revealed in the internal control procedures.
- 4.6. On the middle level, the scope of authority of the Company's Top managers in the sphere of internal control includes:
- 4.6.1. drafting of policies (standards) regulating Company's(ies)' financial and operating activity within its authority and provision for its further adoption to the Sole executive body;
  - 4.6.2. regular review and update of the Company's(ies)' policies (standards) regulating financial and operating activity;
  - 4.6.3. responsibility for execution and compliance with the policies (standards) adopted by the Sole executive body and regulating the Company's(ies) financial and operating activity both within its authority and the Company(ies) in general;
  - 4.6.4. participation in discovery and evaluation of risks associated with the Company's(ies)' financial and operating activity within its authority.
- 4.7. On the middle level, the scope of authority of the Company's(ies)' Specialized department in the sphere of internal control includes:
- 4.7.1. execution of exclusively controlling functions of the compliance with the Company's(ies)' policies (standards) regulating financial and operating activity and other applicable internal documents within defined for them areas of Company's(ies)' operations;
  - 4.7.2. proposals to the Top managers and Sole executive body to change (update) the policies (standards) regulating financial and operating activity of the Company(ies) within its authority;
  - 4.7.3. participation in discovery and evaluation of risks associated with the Company's(ies)' financial and operating activity within its authority.
- 4.8. On the basic level, the scope of authority of the Company's Middle Managers in the sphere of internal control includes:

- 4.8.1. arrangement of continuous implementation and follow-up of the policies (standards) regulating financial and operating activity of the Company(ies), adopted by the Sole executive body;
- 4.8.2. proposals for the Top managers to change (update) the policies (standards) regulating financial and operating activity of the Company(ies) within its authority;
- 4.9. On the basic level, the scope of authority of the Company's employees in the sphere of internal control includes:
  - 4.9.1. execution and compliance with the policies (standards) adopted by the Sole executive body and regulating the Company's(ies) financial and operating, within its authority;
  - 4.9.2. proposals to the line manager (head) to improve the policies (standards) regulating the Company's(ies) financial and operating activity;
- 4.10. Internal control bodies act under this Regulation and any bylaws, regulating respective bodies of the Company(ies).

## **5. INTERNAL CONTROL PROCEDURES**

- 5.1. The Company operates its internal control by:
  - 5.1.1. identifying and analyzing the risks which may keep the Company's(ies)' from achieving its goals;
  - 5.1.2. informing the Company's(ies)' employees on their duties in the sphere of internal control;
  - 5.1.3. adopting properly documents on the internal control procedures;
  - 5.1.4. developing and adopting the policies (standards) regulating the Company's(ies)' financial and operational activity; evaluating its effectiveness on a regular basis and its amending as necessary;
  - 5.1.5. ensuring its governing bodies comply with the policies (standards) regulating financial and operating activity of the Company(ies);
  - 5.1.6. conducting audits of the financial and operating activity in the Company's(ies)' business units to monitor their compliance with the Company's bylaws, policies (standards) and applicable law (administrative and financial control);
  - 5.1.7. conducting audits of the Company's reporting to check its completeness, correctness and timeliness (reporting control);
  - 5.1.8. conducting audits and inspections to monitor the safety and proper use of the Company's assets (asset control);
  - 5.1.9. evaluating on a regular basis the effectiveness of applied internal control procedures.
- 5.2. For the internal control purposes, the Company(ies) exercises and implement standard procedures which are defined in Addendum №1 hereto. The procedures are applicable for all financial and operating activities of the Company(ies). Depending on the authority and set goals, the Company(ies) may define any other additional types of controlling procedures.

## **6. FINAL PROVISION**

- 6.1. All changes and amendments to this Regulation shall be approved by the Company's Board of Directors.
- 6.2. Should any clauses of this Regulation contradict to the Company's Charter, the Charter shall prevail.
- 6.3. This Regulation enters into force upon its approval by the Company's Board of Directors.

### STANDARD CONTROL PROCEDURES

| Control procedure   | Description  |
|---|--|
| Effective segregation of duties   | Distribution of duties and responsibilities on approving, executing, accounting and controlling operations, as well as safeguarding of assets in order to prevent errors and unlawful actions.   |
| Analysis of Key Performance Indicators  | Detailed review of financial and non-financial performance indicators of the Company in order to assess level of goals achievement.  |
| Authorization and approval of operations  | Permission of operations' execution on the basis and in compliance with the applicable Company's bylaws.   |
| Management inspection   | Detailed review and control performed by the Company's management on employees' operations at all managerial levels.   |
| Analytical review   | Detailed examination of the Company's data in order to identify any discrepancies with the preliminary defined values/criteria (comparison of data related to different periods, plan vs. fact, as well as review of supporting documents and decisions made by the governing bodies). |
| Reconciliation  | Comparison of several data sources and identification of possible contradictions in order to confirm reliability of initial data (financial statements balances, counterparty balances, reports and data of information systems).  |
| Physical control/safeguarding of assets   | Restriction of access to the company's assets to unauthorized staff, and physical counting of the assets with subsequent comparison of results with accounting records (inventory, physical security of assets).   |
| Information systems controls, including:  |  |
| <ul style="list-style-type: none"> <li>• Restriction of access rights</li> </ul>                  | Use of hardware and software package and physical security facilities in order to provide the staff by the access to the data only within their competence.  |
| <ul style="list-style-type: none"> <li>• Control over data transmission and processing</li> </ul> | Use of organizational and technical measures for data processing and transmission, which allow providing reliability, completeness and accuracy of data.   |