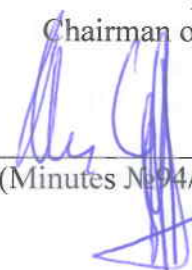


**APPROVED**

By the Board of Directors  
of the OJSC «Company «M.video»  
on December 11, 2014

Chairman of the Board of Directors

  
/Peter Gyoeffy/  
(Minutes №94/2014 dated 15.12.2014)

**INTERNAL AUDIT CHARTER  
of the Open Joint Stock Company  
«COMPANY «M.VIDEO»**

## 1. GENERAL

- 1.1. This Internal Audit Charter (hereinafter – the “Charter”) is an internal document of the OJSC “Company “M.video” (hereinafter – “the Company”) is prepared pursuant to the Federal Law “On joint stock companies” (hereinafter – “the Law”), Listing rules of the stock exchange where the Company’s shares are admitted for trading, Company’s Charter and other internal documents of the Company and recommendations of the Code of corporate governance approved by the Central Bank of Russia. This Charter cancels the Internal Audit Charter approved by the Board of directors on September 12, 2013 (Minutes №78/2013 dated 12.09.2013
- 1.2. The present Charter defines the mission, purpose, functions, authority, responsibilities and subordination of the Company’s Internal Audit division performing internal audit function (hereinafter – “Internal Audit” or “IA”).
- 1.3. Internal Audit is managed by the Head being an officer of the Company. Head of IA reports to the Company’s Board of directors and is appointed (his/her authority is terminated) by the General director based on the Board of directors’ recommendation.
- 1.4. Head of IA in its functional activity reports and subordinates to the Company’s Board of directors but is administratively supervised by the sole executive body of the Company. If the Head of IA is absent (sickness, vacation or other reasons) responsible person is designated by the Head of IA.
- 1.5. The organizational form of IA division shall be defined by the Company’s Staffing Plan and Organizational Chart, introduced by the Order authorized by the sole executive body of the Company.
- 1.6. Sole executive body of the Company provides IA with the authorities necessary for the performance of the functions prescribed by the Charter and an Audit plan approved by the Audit Committee.

## 2. MISSION, PURPOSE and TASK

- 2.1. The Internal Audit division is established to provide the Audit Committee in particular, and Company’s Board of Directors and Management in general with an independent review of business processes and controls necessary to manage the risks and to ensure that the Company achieves its objectives.
- 2.2. The Internal Audit division is an activity that is guided by a philosophy of adding value to improve the operations of the Company.
- 2.3. The Internal Audit division assists the Company in accomplishing its objectives using a systematic and disciplined approach in:
  - providing assurance, aiming to give confidence to the stakeholders that the threats that are faced by the Company have been mitigated appropriately (i.e. the controls used by management are adequate and operating effectively);
  - advising and consulting managers in relation to issues within its remit, i.e. improve systems of risk management, governance and control (e.g. appropriate controls in new projects/developments).
- 2.4. Tasks of IA are to:
  - assist the executive bodies of the Company and its employees in developing and monitoring of the procedures’ performance and execution aimed to improve the systems of risk management, governance and control in the Company;
  - coordinate with external auditor of the Company as well as with persons rendering consulting services in the field of risk management, internal control and corporate governance;

- held internal audits in the legal entities under the Company’s control within the frames of the approved audit plan;
- brief and provide the Board of directors and executive bodies of the Company with the reports on the results of the IA activity (including information on major risks, weak points, results and effectiveness of execution of the procedures aimed to remedy the discovered drawbacks, on the results on the internal audit plan performance, on the evaluation results of the actual status, credibility and effectiveness of the system of risk management, corporate governance and internal control);
- check the compliance of the executive bodies and employees of the Company with the law requirements and internal corporate regulations related to the insider information and anticorruption, compliance with the provisions of the Code of ethics of the Company.

### **3. PROFESSIONALISM**

3.1. The internal audit activity governs itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity’s performance.

### **4. INDEPENDENCE OF INTERNAL AUDIT**

4.1. Independence of IA is achieved through a distinct line between functional and administrative subordination (organizational status of the Internal Audit division) and objectivity of internal auditors.

4.2. Functionally IA division is subordinated to the Board of directors of the Company:

4.2.1. This subordination involves the Audit Committee to:

- review the IA Charter, determining purpose, tasks and functions of the IA and recommend it for approval to the Board, including any changes and amendments to it ;
- preliminary review and provide recommendation to the Board when making a decision on the appointment or removal, determination of the compensation amount of the Head of Internal Audit ;
- preliminary review and provide recommendation to the Board when making a decision on the approval of annual internal audit risk assessment and related internal audit plan, including all changes and amendments thereto ;
- preliminary review and provide recommendation to the Board when making a decision on the approval of the IA annual budget;
- communicate with the Head of IA on the results of internal audit activities and convene regular private meetings with the Head of Internal audit (without executive bodies of the Company and other key employees );
- review of internal audit reports;
- conduct the Head of Internal audit performance assessment and evaluation of annual internal audit results;
- review the sufficient limitations of Internal audit authorities or any other limitations that could impede internal audit activities;

- annul status check and receipt from the Head of Internal audit confirmation of organizational independence of IA.
- 4.2.2. Administrative reporting line of accountability to the sole executive body of the Company is built within the organizational structure and facilitates day-to-day internal audit operations. Administrative reporting includes:
- the issuance of the relevant regulations concerning the Internal audit activities based on decisions taken by the Board;
  - receipt and review of internal audit reports on the audits made by IA;
  - approval of the action plans of developed by the executive bodies and key employees to resolve drawbacks discovered in the course of the audit ;
  - monitoring the implementation of the action plans and corrective measures by the executive bodies and if implementation of the action plans is breached taking corresponding measures;
  - allocation of funds within the approved IA budget necessary for execution of the internal audit activity;
  - policy and guidelines administration of the IA activity;
  - provision of necessary working conditions for employees of IA , including equipment, access to information and internal communications, administrative support;
  - organization and provision of efficient internal communications and information flows between internal auditors and other Company departments and/or Company’s subsidiaries;
  - support of adherence to Company’s policies (compliance with the working hours, timely payment of salary, adherence to business trip procedures, etc.).
- 4.3. Each internal auditor has a sufficiently independent position to be able to have an objective attitude to exercise judgment, express opinions and present recommendations with impartiality. Specifically:
- The Internal Audit staff is free from any conflict of interest arising either from professional or personal relationships or other interests in the Company or any related activity, which it may subject to audit;
  - The Internal Audit staff is free from undue influence, which either restricts or modifies the scope or conduct of its work or overrules or significantly affects its judgment as to the content of any internal audit reports.
  - In the interests of independence, the Internal Audit staff has direct access to all members of the Audit Committee of the Board of directors and has no direct responsibility for, or authority over any of the Company’s activities. i.e.:
    - Be involved in day-to-day control and functional procedures, including drafting and implementing controls or take any managerial function in the Company.
    - Vote with decisive vote in any discussion of the strategic and operational management, to be an approving participant in the decision-making process (with the exception of decisions related to the organization of internal audit).
    - Make decisions on the imposition of penalties on the Company's and/or Company’s subsidiaries employees, except Internal Audit staff.
    - Give any orders and instructions prescribing or regulating any actions of the Company's employees, except instructions related to the organization of Internal Audit activity;

- Develop organizational, administrative and regulatory documents, except those regulating Internal Audit activity.
- The Head of Internal Audit has no executive or managerial powers and duties in the Company except those relating to the management of the Internal Audit department.

## 5. SCOPE, FUNCTIONS AND RESPONSIBILITIES

- 5.1. The audit scope is based on the assessment of corporate risk.
- 5.2. Audit coverage is focused on high-risk areas and gives a review of risk management procedures, internal control system, information systems and governance processes.
- 5.3. Audit work involves periodic testing of transactions, leading practice reviews, acquisition due diligence and other special investigations, appraisals of regulatory or internal requirements, and measures to help prevent and detect fraud.
- 5.4. Internal audit functions in particular are:
- assistance to the executive bodies and key employees of the Company and/or Company's subsidiaries in development and monitoring of implementation and execution of the procedures to improve the risk management system, internal control and corporate governance;
  - coordination with the External Auditor, as well as with persons rendering consulting services in the sphere of risk management, internal control and corporate governance;
  - evaluation of the effectiveness of risk management system, internal control and corporate governance, i.e.:
    - 1) evaluation of the effectiveness of risk management system includes among others:
      - assessment of adequacy and sufficiency of risk management elements needed for the effective risk management (purpose and tasks, infrastructure, arrangement of processes, methodological support, interaction of the departments within the system of risk management, financial statements), review the completeness of risk exposure and correctness of risk assessment by the executive bodies of the Company and/or Company's subsidiaries;
      - evaluation of the effectiveness of the controlling procedures and other measures taken for risk management including utilization efficiency review of those resources which were designated for these goals;
      - analysis of the information on the risks occurred (breaches discovered in the course of internal audits, facts of non-achievement of the established objectives and goals, facts on any legal proceedings);
    - 2) evaluation of the effectiveness of the internal control system, includes among others:
      - analysis of goals' correspondence of business-processes and projects with the goals of the Company and/or Company's subsidiaries;
      - assessment of reliability and integrity of operational business-processes and information systems, including reliability of the procedures preventing wrongful acts, abuse and corruption;
      - verification of credibility maintenance of the financial statements, statics reports, managerial reports and any other reports;
      - determination whether results of the business-processes and projects in the Company and/or Company's subsidiaries correspond with the goals, whether criteria set by the executive bodies for analysis of the level of achievement the established goals are adequate;

- discover the weak points in the system of internal control which impeded or impede the Company and/or Company's subsidiaries to achieve the established goals;
  - evaluation of the results on implementation of controlling measures in the Company and/or Company's subsidiaries on each level of management;
  - check the efficiency and reasonability of the resources utilization;
  - evaluation of the means of the assets' protection and, as appropriate, verifying the existence of such assets;
  - assessment of the compliance with law requirements, Charter provisions and internal corporate documents of the Company and/or Company's subsidiaries;
- 3) evaluation of the corporate governance includes among others:
- compliance with the ethical principles and corporate values of the Company and/or Company's subsidiaries;
  - priority of goals' setting for the Company and/or Company's subsidiaries, way of monitoring and control of its achievement;
  - assessment of levels of information cooperation procedures (including issues related to the internal control and system of risk management) at all levels of management in the Company and/or Company's subsidiaries, way of monitoring and control of its achievement, including cooperation with interested parties;
  - assessment of proper treatment of shareholders, including companies controlled by the Company and efficiency in cooperation with the interested parties;
  - evaluation of information disclosure procedures about the Company and/or Company's subsidiaries;
  - evaluation of the effectiveness of controls over the relevance, reliability and integrity of information for management and reporting purposes;
  - assistance to the executive bodies in identifying business risks and assessing the adequacy of the risk management processes;
  - conduction within the set timing internal audit of the Company's subsidiaries;
  - preparation and provision of the Board of directors and executive bodies of the Company with the reports on the results of the IA activity (including information on significant risk exposure (fraud risks included), weak points, results of the remedial measures implementation, results of the action plan performance by the IA, assessments' results of the current condition, reliability and efficiency of risk management system, internal control and corporate governance; close cooperation with all the oversight bodies the Company and/or Company's subsidiaries (i.e. Fraud Investigation department, Security department and etc.) to better coordinate oversight and monitoring function in the Company, to provide maximum audit coverage and to reduce any overlaps;
  - assessment of the executive bodies and key employees of the Company compliance with Russian law requirements, internal corporate documents of the Company and/or Company's subsidiaries related to the insider information and anti-corruption and Code of ethics of the Company and/or Company's subsidiaries;

5.5. Internal Audit staff is accountable for safekeeping and confidentiality of information obtained, whilst carrying out the Internal Audit work.

- 5.6. Each business unit and/or employees of the Company and/or Company's subsidiaries are responsible for the risk management, internal control, corporate governance and its efficiency. It is allowed to engage in the Internal Audit division for consulting and assistance on the adequacy of controls when they are first implemented.

## **6. AUTHORITY**

- 6.1. The Head of Internal Audit has an unrestricted access to the Chairman of the Audit Committee and the sole executive body of the Company and reports to the Audit Committee.
- 6.2. To perform its duties, Internal Audit staff is authorized to:
- decide on the nature, scope and timing of audits;
  - enter any premises of the Company and/or Company's subsidiaries and have access to and inspect any documents and records other than as agreed by the Audit Committee;
  - request any officer of the Company and/or Company's subsidiaries to provide such information and explanations as may be deemed necessary;
  - have discussions with line managers and employees of the Company and/or Company's subsidiaries at any reasonable time;
  - subject to direct supervisor's approval, involve other employees of the Company and/or Company's subsidiaries in audit execution.
- 6.3. Specific sensitive and highly confidential matters are handled by the Head of Internal Audit.
- 6.4. To conduct audits, evaluations, assessments and appraisals within the competence of internal audit, the Head of Internal Audit may engage on a contractual basis third-party independent providers within the approved budget. The contracts are subject to approval of the Audit Committee.
- 6.5. The Head of Internal Audit has the right to limit the number of persons acknowledged about the audit when premature disclosure of the ongoing work may result in the loss or falsification of documents and other audit evidence by the involved staff or to create obstacles to the audit.

## **7. INTERNAL AUDIT PLAN AND REPORTING**

- 7.1. Internal audit plan shall be submitted by the Head of IA to the Board of directors for review and approval basing on the Audit committee recommendation at least once a year. .
- 7.2. The internal audit plan is developed based on a prioritization of the audit universe using a risk-based methodology, including input of the Audit Committee, executive bodies and key employees of the Company and/or Company's subsidiaries.
- 7.3. The Head of Internal Audit communicates the impact of resource limitations and significant interim changes to the Audit Committee through periodic activity reports.
- 7.4. A written report is prepared and issued by the Head of Internal Audit or designee, following the conclusion of each internal audit engagement. Distribution list includes, but not limited, the Audit Committee, sole executive body of the Company and executive bodies of audited departments of the Company and/or Company's subsidiaries.

## **8. INTERNAL AUDIT LIMITATIONS**

- 8.1. Reviews by Internal Audit do not in any way relieve sole executive body of his/her absolute responsibility to ensure that the controls on which he/she relies are robust.
- 8.2. Identification and prevention of facts of fraud is a fully sole executive body responsibility.
- 8.3. Upon request the Internal Audit division assists the executive bodies of the Company to identify the main fraud risks the Company may be exposed to and helps to set adequate controls that could minimize the effects of the risks.

## **9. PERFORMANCE EVALUATION**

- 9.1. Annually the Board of directors based on the recommendations of the Remuneration and Nomination committee and those of the Audit committee makes performance assessment of the Internal Audit division.
- 9.2. The key performance indicators of the Internal Audit and target values for each KPI are annually reviewed and approved by the Audit Committee.

## **10. OTHER PROVISIONS**

- 10.1. This Charter is subject to the Board of Directors review and approval.
- 10.2. The Charter enters in force from date of the order issued by sole executive body based on the corresponding Board's approval.
- 10.3. The Head of Internal Audit, at least once a year, should review and evaluate the relevance of this Charter and, when necessary, make appropriate changes with further review by the Audit Committee.





Chairman of the Board of Directors  
0255 "Company", M. E. 1200 "

*[Handwritten signature]*  
/ Peter Gyertygy /