

## **Conclusion of the Internal Audit Directorate of LENTA PLC on the results of assessing the reliability and efficiency of the internal control and risk management system, corporate governance of LENTA PLC for 2020**

The opinion was prepared in accordance with the requirements of the Federal Law of December 26, 1995 No. 208-FZ "On Joint Stock Companies".

### **General conclusion**

The results of audits performed by the Internal Audit Directorate (hereinafter – the IAD) at the end of 2020 confirm that, in general, the systems of internal control, risk management and corporate governance in LENTA (hereinafter – the Company) are adequate for the nature and scale of operations performed, the level and combination of risks accepted.

Violations, errors and shortcomings in the Company's activities that may threaten the interests of shareholders, creditors and other interested parties or affect its financial stability have not been identified.

### **IAD independence**

The IAD is functionally subordinate to the Board of Directors of the Company, and administratively - to the CEO of the Company. The IAD carries out its activities in compliance with the principles of independence, impartiality, honesty, objectivity and professional competence. There were no restrictions on powers in the implementation of the internal audit function that could negatively affect the effective implementation of this function in 2020. The Audit Committee which consists solely of independent Board members oversees the operation of the IAD.

### **Assessment of the internal control system**

In accordance with the requirements of Federal Law No. 208-FZ dated 26.12.1995 "On Joint Stock Companies", the Company has organized risk management and internal control systems.

The Company has approved internal documents defining the company's policy in organizing internal control. All structural divisions of the Company participate in the implementation of internal control as part of the performance of tasks and functions of divisions in accordance with the regulatory documents of the Company.

The IAD provides an independent assessment of the effectiveness of the internal control and risk management systems. As part of its activities, the IAD carries out inspections in all areas of the Company's activities based on a risk-oriented approach. Any business process or division of the Company can be the subject of an audit.

In 2020, 17 audits of business processes were performed in various departments in accordance with the annual internal audit plan approved by the Board of Directors, as well as 5 unplanned audits of business processes. 61 stores were inspected as part of the regular store audit program. The Audit Committee of the Board of Directors, the management of the Company and the heads of the relevant divisions of the Company were informed about the results of the audits in accordance with established procedure.

The management of the Company and of the audited divisions, based on the recommendations of the IAD, developed plans for corrective actions and took the respective remediation measures: in 2020 300 measures were taken to improve business processes and to strengthen the control environment. The

implementation of corrective measures is under the control of the management of the Company and the IAD.

The Audit Committee at regular meetings reviews the reports on the results of the IAD audits, considers the processes of organizing internal control, measures to improve its effectiveness, as well as the results of the implementation of corrective action plans.

#### **Assessment of risk management system**

The risk management policy, approved by the Board of Directors, defines the basic principles for the formation of a risk management system, taking into account the requirements of exchange regulators and the legislation of the Russian Federation. According to the Risk Management Policy, the Board of Directors is responsible for the effectiveness of the risk management process in the Company and the reliability of the risk management and internal control systems. The Audit Committee is responsible for monitoring and reviewing the effectiveness of the Company's approach to the risk management process. The management and employees of the company assess risks, ensure the implementation of controls for the effective operation of the risk management system, and ensure compliance with risk response plans.

In 2020, the IAD reviewed the Company's risk register and provided feedback to the Company's management on the areas of further improving the register. The IAD used the risk register prepared by the Company in the second half of 2020 for the annual planning of audits for 2021.

The IAD provides an independent assessment of the effectiveness of risk management during audits and makes recommendations for improving risk management procedures.

#### **Assessment of corporate governance system**

In accordance with the requirements of the Federal Law "On Joint Stock Companies", the Company's Charter contains information about the system of governing bodies, the procedure for their formation and their powers. Also, the Charter fixes the main approaches, requirements and principles of functioning of the corporate governance system. The corporate governance procedures and practices are detailed in the Charter and internal documents of the Company. The corporate governance system is aimed at ensuring the rights and interests of shareholders, increasing the efficiency of doing business, increasing the level of transparency and investment attractiveness of the Company and preserving the Company's equity.

During the audit engagements in 2020, the IAD considered, among other things, the following topics:

- observance of the delineation of powers and responsibilities in the management of the Company;
- compliance with the policies establishing the powers of the Company's managers, as well as the established principles of competitive selection of suppliers;
- compliance with ethical policy, anti-corruption principles, prevention of conflicts of interest, as well as the policy for confidential information;
- compliance with legal requirements.

The Audit Committee and the Company's management were informed about the results of the audits in terms of corporate governance in accordance with the established procedure.

### **Assessment of IAD activity by the Audit Committee**

At the end of 2020, the Audit Committee confirmed that the Company had ensured the independence of the IAD, recognized the efficient operation of the IAD and the effective performance by the Chief Audit Executive and the IAD of the assigned functions.

### **Explanatory information**

The IAD conclusion was reviewed by the Audit Committee.

The decision to include the conclusion of the IAD in the list of information (materials) provided for familiarization to persons entitled to participate in the Annual General Meeting of Shareholders of the LENTA IPJSC on the results of 2020 was made by the Audit Committee of the Company at a meeting on 06.05.2021.