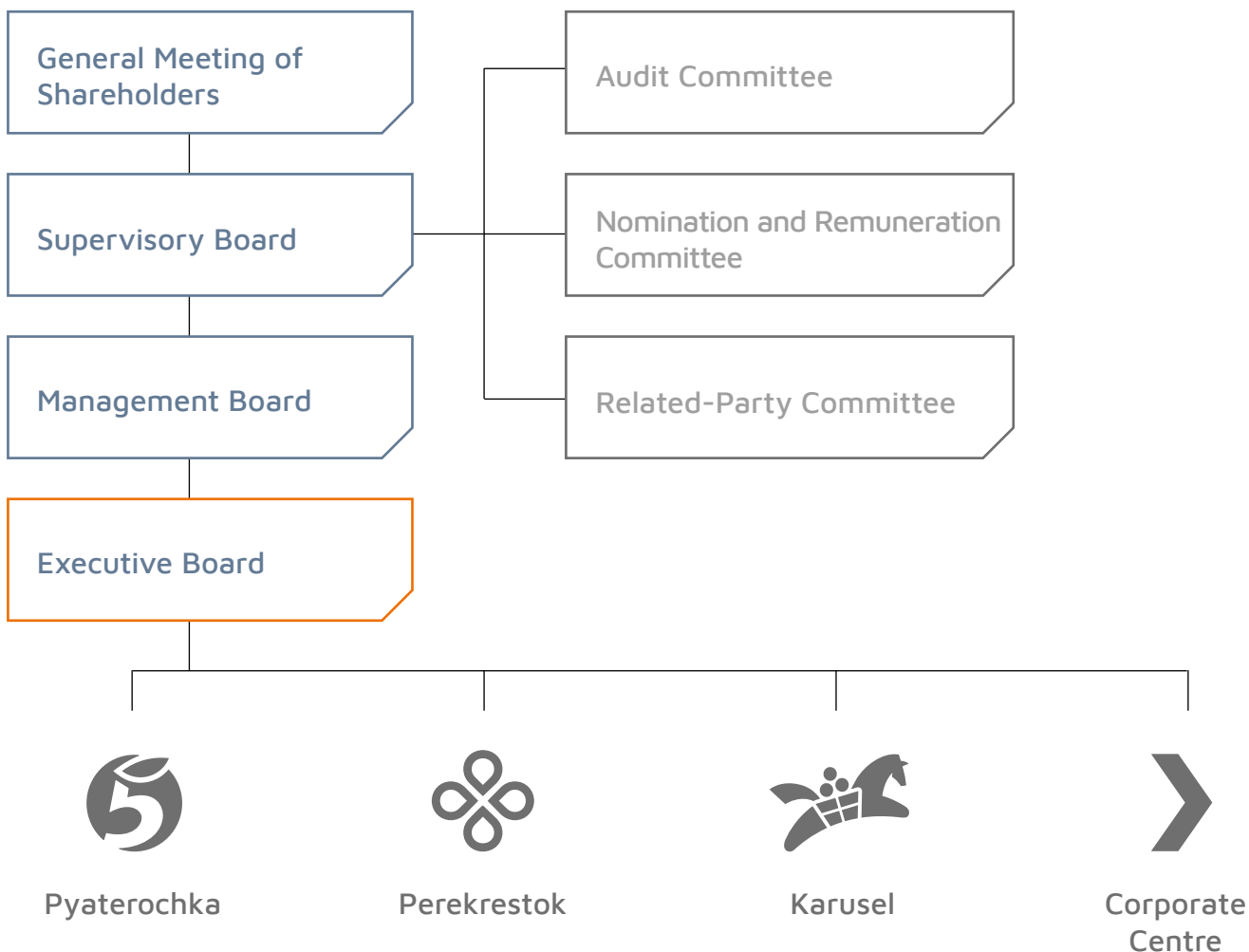


Governance structure

The Company has a two-tier board structure, comprising a Management Board and a Supervisory Board. The Supervisory Board advises and supervises the Management Board and the general course of affairs at X5 and its affiliated businesses and ensures that external experience and knowledge are embedded in the Company's operations. The Management Board and the Supervisory Board are independent of one another and accountable to the General Meeting of Shareholders.



Management Board

The Management Board has ultimate responsibility for the overall management of the Company and oversees all corporate governance activity. It is accountable for the Company’s pursuit and achievement of corporate goals and objectives, its strategies and policies. The Management Board is responsible for complying with all relevant legislation and regulations, for managing the risks associated with the Company’s activities and for financing and external communication.

In managing X5’s general affairs and its day-to-day operations, the Management Board is supported by the Executive Board, which was established to provide for a leadership team at the level of the Company’s operating subsidiaries in Russia in order to best support X5’s strategy and businesses at the local operating level. The Management Board is ultimately responsible for the actions and decisions of the Executive Board.

The current members of the Management Board and the Executive Board, including their biographies, are presented on pages 50-55 and 180-181

Composition and reappointment schedule of the Management Board

Name	Year of birth	Year of first appointment	End of current term of appointment
Igor Shekhterman	1970	2015	2019
Frank Lhoëst	1962	2007	2019

Supervisory Board

The Supervisory Board is responsible for supervising and advising the Management Board and overseeing the general course of affairs, strategy and operational performance of X5 and its businesses. In performing its duties, the Supervisory Board takes into account the relevant interests of the Company and all its stakeholders, and, to that end, considers all appropriate interests associated with the Company and its affiliated businesses, including corporate responsibility issues that are relevant to the Company. Major business decisions require the approval of the Supervisory Board. The Supervisory Board is responsible for monitoring and assessing its own performance.

The General Meeting of Shareholders determines the number of members of the Supervisory Board, which currently consists of eight members.

The current members, including their biographies, are presented on pages 180-181

The Supervisory Board has prepared a profile of its size and composition, taking account of the nature of the Company’s business and its activities and the desired expertise and background of the members of the Supervisory Board. The Supervisory Board evaluates its profile and composition annually.

Supervisory Board members are appointed for a period of up to four years and may be re-elected, whereby the total term of office may not exceed 12 years. The Supervisory Board has prepared a retirement and reappointment schedule to, as far as possible, prevent simultaneous reappointments. The Supervisory Board’s profile and rotation plan can be viewed on the Company’s website.

Composition and reappointment schedule of the Supervisory Board

Name	Year of birth	Year of first appointment	Year of possible reappointment
Stephan DuCharme (Chairman) ¹	1964	2015	2019
Mikhail Fridman	1964	2006	2021
Christian Couvreur ²	1950	2010	2018
Pawel Musial	1968	2013	2021
Geoff King	1965	2015	2019
Peter Demchenkov	1973	2015	2019
Michael Kuchment	1973	2015	2019
Andrei Elinson	1979	2016	2020

¹Stephan DuCharme previously served on the Supervisory Board from 2008 until 2012.

²Christian Couvreur reached the end of his second term in office and will not be eligible for reappointment at the 2018 Annual General Meeting of Shareholders.

Committees of the Supervisory Board

As of 1 January 2018, the Supervisory Board dissolved the Strategy Committee, as its meetings were effectively meetings of the full Supervisory Board, with all members attending. In the future, such meetings will be convened as dedicated strategy meetings of the Supervisory Board. As a result, the Supervisory Board currently has three permanent committees: the Audit Committee, the Nomination and Remuneration Committee and the Related-Party Committee. The members of each committee are appointed by the Supervisory Board and from among its members. Each committee has a charter describing its role and responsibilities and the manner in which it discharges its duties and reports to the full Supervisory Board. These charters are included in the Rules of Procedure of the Supervisory Board, which can be viewed on X5's website.

Audit Committee

The Audit Committee assists the Supervisory Board in overseeing the integrity of X5's financial statements, system of internal business controls and risk management, financing and finance-related strategies, tax planning, the Company's compliance with legal and regulatory requirements, as well as the qualifications, performance and independence of the external auditor and the performance of the internal audit function.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee recommends the remuneration policy for the Management Board to be adopted by the General Meeting of Shareholders, prepares proposals to the Supervisory Board for remuneration of the individual members of the Management Board in line with the remuneration policy and advises the Management Board on the level and structure of compensation for other senior personnel. The Nomination and Remuneration Committee also advises in respect of the selection and appointment of members of the Supervisory Board, the Management Board and the Executive Board.

Related-Party Committee

The Related-Party Committee advises the Supervisory Board on handling and deciding on reported (potential) conflicts of interest and any other related-party transactions that are contemplated between X5, on the one hand, and conflicted persons or entities, including but not limited to its shareholders, members of the Supervisory Board and members of the Management Board, on the other hand.

Diversity

The Supervisory Board operates a policy that aims for a diverse composition of both the Management Board and the Supervisory Board in particular areas of relevance for X5. This includes diversity of experience, nationality and background. Appointments to the Management Board and Supervisory Board are evaluated against the relevant profile, the existing balance of skills, knowledge and experience on the respective board and the need for the relevant board to be prepared for disruption and change. Management Board and Supervisory Board members are prompted to be mindful of diversity, inclusiveness and meritocracy considerations when examining and proposing nominations to the Management Board and Supervisory Board. In the selection and appointment of new Management Board or Supervisory Board members, the Supervisory Board will consider a diverse range of candidates. This will also include diversity of gender and age so that when the final appointment is made the Supervisory Board can be confident that the most effective candidate has been selected.

Composition of the Supervisory Board Committees

Name	Audit Committee	Nomination and Remuneration Committee	Related-Party Committee
Stephan DuCharme		Member	
Mikhail Fridman			
Christian Couvreur	Member	Member	
Pawel Musial	Member		
Geoff King	Chairman		Chairman
Peter Demchenkov		Chairman	
Michael Kuchment			Member
Andrei Elinson	Member	Member	

Each year, the Supervisory Board conducts an evaluation of its functioning and the functioning of the Management Board. In this context, the Supervisory Board gives careful consideration to the diversity of its own composition, as well as that of the Management Board, so as to be effective in performing its role.

While the Management and Supervisory Boards are currently not balanced with regard to gender, X5 recognises the benefits of gender diversity, and importance is attached to achieving this. Our aim is to create a balance, to the extent possible, in which the diversity referred to above is expressed and where the objective is to comply with the statutory requirements. X5 recognises the importance of diversity, including gender, at all levels of the group and has a very strong track record of developing a critical executive layer of female business leaders. Across all of the Group's operations, specific diversity targets are taken into account in recruitment, talent development, appointments, retention of employees, mentoring and coaching programmes, succession planning, training and development.

Appointment, suspension and dismissal

The General Meeting of Shareholders appoints the members of the Management and Supervisory Board from a binding nomination, to be drawn up by the Supervisory Board. The recommended candidate is appointed by the General Meeting of Shareholders unless the nomination is deprived of its binding character by a qualified majority vote of at least two-thirds of the votes cast, representing more than one-half of the issued share capital of the Company.

Members of the Supervisory Board serve for a maximum term of four years from the date of their appointment or a shorter period if determined upon their appointment by the General Meeting of Shareholders or as per the Supervisory Board's rotation schedule. A Supervisory Board member can be reappointed after their first term of four years, for one additional term of four years, followed by two additional terms of two years. A Supervisory Board member may not serve more than 12 years. A Supervisory Board member who directly or indirectly holds at least 10% of the shares in the issued share capital of the Company may hold office for more than 12 years and is eligible for reappointment after that term (see "Compliance with Dutch Corporate Governance Code" in this report).

Members of the Management Board are also elected for a period of four years. The Articles of Association do not limit the total term of office for Management Board members.

Each member of the Supervisory Board and Management Board may, at any time, be dismissed or suspended by the General Meeting of Shareholders. A member of the Management Board may, at any time, be suspended by the Supervisory Board. Such suspension may be discontinued by the General Meeting of Shareholders at any time.

Remuneration

In line with the remuneration policy adopted by the General Meeting of Shareholders, the remuneration of the individual members of the Management Board will be decided by the Supervisory Board upon the recommendation of its Nomination and Remuneration Committee. The remuneration of the members of the Supervisory Board is determined by the General Meeting of Shareholders. The remuneration policy for members of the Management Board and Executive Board can be found in the remuneration report on pages 188-191. The remuneration principles for the Supervisory Board are described in the Supervisory Board Report on pages 182-187.

Reporting on conflicts of interest

A member of the Management Board or Supervisory Board is required to immediately report and provide all relevant information to the Chairman of the Supervisory Board (and to the other members of the Management Board if it concerns a member of that board) on any conflict of interest, or potential conflict of interest, that they may have with the Company and that may be of material significance to them or the Company.

If a member of the Supervisory Board or a member of the Management Board has a conflict of interest with the Company, that member may not participate in the discussions or decision-making process on subjects or transactions relating to the conflict of interest. A decision taken by X5 to enter into a transaction involving a conflict of interest with a member of the Management Board or a member of the Supervisory Board that is of material significance to them or the Company requires the approval of the Supervisory Board. The Related-Party Committee advises the Supervisory Board on handling and deciding on (potential) conflicts of interest and prepares resolutions of the Supervisory Board in relation thereto. An account of related-party transactions in 2017 is included in the Supervisory Board Report on pages 182-187.

Shareholders and their rights

General Meeting of Shareholders

X5 Retail Group N.V. is required to hold a General Meeting of Shareholders within six months after the end of the financial year, among other things, to adopt the financial statements, to decide on any proposal concerning profit allocation and to discharge the members of the Management Board and Supervisory Board from their responsibility for the performance of their respective duties for the previous financial year.

Extraordinary meetings are held as often as the Management Board or the Supervisory Board deems necessary. In addition, shareholders and holders of global depository receipts (GDRs) jointly representing 10% of the outstanding share capital may ask the Management Board and the Supervisory Board to hold a General Meeting of Shareholders, stating their proposed agenda in detail.

The powers of the General Meeting of Shareholders are specified in the Articles of Association. Apart from the decisions taken at the Annual General Meeting of Shareholders, the main powers of the General Meeting of Shareholders are to appoint (subject to the Supervisory Board's right to make binding nominations), suspend and dismiss members of the Management Board and Supervisory Board, to appoint the external auditor, to adopt amendments to the Articles of Association, to issue shares and grant subscriptions for shares, to authorise the Management Board or the Supervisory Board to issue shares and grant subscriptions for shares, to authorise the Management Board or the Supervisory Board to restrict or exclude pre-emptive rights of shareholders upon the issuance of shares, to authorise the Management Board to repurchase outstanding shares in the Company, to adopt the remuneration policy of the Management Board, to determine the remuneration of members of the Supervisory Board, and to merge, demerge or dissolve the Company.

The notice for a General Meeting of Shareholders needs to be published no later than 42 days prior to the day of the meeting. The mandatory record date, establishing which shareholders are entitled to attend and vote at the General Meeting of Shareholders, is set at least 28 days prior to the date of the meeting.

One or more shareholders or holders of GDRs representing at least 3% of X5's issued share capital are entitled to request that a matter be included on the agenda of the General Meeting of Shareholders. Such requests, if sufficiently substantiated and received by the Company at least 60 days before the date of the meeting, can only be refused on the grounds of exceptional circumstances, to be checked against the principles of reasonableness and fairness.

All shareholders and other persons who, pursuant to Dutch law or the Articles of Association, are entitled to attend and/or vote at a General Meeting of Shareholders are entitled to address the General Meeting of Shareholders. X5 uses the Bank of New York Mellon, the depository for X5's GDR facility (the "Depository"), to enable GDR holders to exercise their voting rights represented by the shares underlying the GDRs. As described in the "Terms and Conditions of the Global Depository Receipts", holders of GDRs may instruct the Depository with regard to the exercise of the voting rights connected to the shares underlying their GDRs. Alternatively, upon request of the holders of such depository receipts, the Depository will grant a proxy to such holders who wish to vote in person at a General Meeting of Shareholders. Persons who hold a written proxy may represent shareholders at a General Meeting of Shareholders. The written proxy must be duly executed and legalised in accordance with the applicable laws and may be submitted electronically.

Voting rights

Each share confers the right to cast one vote at the General Meeting of Shareholders. There are no restrictions, either under Dutch law or in the Articles of Association, on the right of non-residents of the Netherlands or foreign owners to hold shares or to vote, other than those also imposed on residents of the Netherlands. Resolutions of the General Meeting of Shareholders are passed by a simple majority of the votes cast in a meeting where more than 25% of the issued share capital is present or represented. If 25% or less of the issued share capital is present or represented, a second meeting should be convened no later than four weeks following the first meeting. At the second meeting, no quorum requirement will apply. However, the General Meeting of Shareholders can only resolve on (i) a merger or demerger, (ii) the authorisation to limit or exclude pre-emptive rights and (iii) cancellation of shares with a majority of at least two-thirds of the votes cast if less than 50% of the issued capital is represented in that meeting.

Dividend rights

Any distribution of profits to shareholders will be made after the adoption by the General Meeting of Shareholders of the annual accounts of the Company from which it appears that such distribution is permitted. The Company may only declare profit distributions insofar as its net assets exceed the sum of its issued share capital plus any legal reserves required to be maintained pursuant to Dutch law. A loss may only be applied against such reserves to the extent permitted by Dutch law. On a proposal of the Supervisory Board, the General Meeting of Shareholders will determine which part of the profits will be added to the reserves and the allocation of the remaining profits.

On a proposal of the Supervisory Board, the General Meeting of Shareholders may resolve to pay an interim dividend insofar as X5's net assets exceed the sum of its issued share capital and the reserves that are required to be maintained pursuant to Dutch law, as evidenced by an interim financial statement prepared and signed by all the members of the Management Board. In addition, on a proposal of the Supervisory Board, the General Meeting of Shareholders may resolve to make distributions to the shareholders out of any reserves that need not be maintained pursuant to Dutch law.

Dividends and other distributions that have not been claimed within five years after the date on which they became due and payable revert to the Company.

Significant ownership of voting shares

According to the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*), any person or legal entity who, directly or indirectly, acquires or disposes of an interest in X5's capital and/or voting rights must immediately give written notice to the Netherlands Authority for Financial Markets (AFM) if the acquisition or disposal causes the percentage of outstanding capital interest and/or voting rights held by that person or legal entity to reach, exceed or fall below any of the following thresholds: 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%.

The following table lists the shareholders on record on 28 February 2018 in the AFM's public register that hold an interest of 3% or more in the share capital of the Company:

Shareholder	Date of disclosure	Capital interest ¹	Voting rights ¹
CTF Holdings Ltd.	2 August 2007	48.41%	48.41%
Axon Trust	22 December 2009	11.43%	11.43%

¹In accordance with the filing requirements, the percentages shown include both direct and indirect capital interests and voting rights. The percentages may differ from the actual shareholders' interests due to the fact that changes within the thresholds mentioned above do not require a notification to the AFM. Further details can be obtained at www.afm.nl.

Securities owned by board members

The members of the Management Board and Supervisory Board and X5's other senior management are subject to the Company's Inside Information and Dealing Code. This Code contains rules of conduct to prevent trading in X5's GDRs of shares or other financial instruments when holding inside information or during blackout periods when trading is not permitted (for instance, prior to the publication of quarterly financial results). The Inside Information and Dealing Code can be viewed on the Company's website.

Under the Inside Information and Dealing Code, members of the Management Board and Supervisory Board must notify the AFM of X5 securities and voting rights at their disposal. These positions can be viewed in the AFM's public register.

Repurchase by the Company of its own shares

The Company may acquire fully paid shares, or GDRs thereof, in its capital for a consideration only following authorisation by the General Meeting of Shareholders and subject to certain provisions of Dutch law and the Company's Articles of Association, if:

- Shareholders' equity minus the purchase price is not less than the sum of X5's issued and fully paid-in capital plus any reserves required to be maintained by Dutch law; and
- X5 and its subsidiaries would not, as a result, hold shares or GDRs thereof with an aggregate nominal value exceeding half of the issued share capital.

In 2017, the Management Board was authorised to acquire up to 10% of the shares or GDRs thereof. This authorisation is valid through 12 November 2018. In addition, the Supervisory Board resolved that in case a purchase of shares or depositary receipts thereof by X5 would lead to X5 holding more than 5% of the shares or GDRs thereof, the Management Board would require the Supervisory Board's prior approval for such purchase.

Authorisation by the General Meeting of Shareholders is not required if X5's own shares are acquired for the purpose of transferring those shares to X5 employees pursuant to any arrangements applicable to such employees.

Shares or GDRs thereof held by X5 or a subsidiary may not be voted on and are not taken into account for determining whether quorum requirements, if any, are satisfied.

Issue of new shares and pre-emptive rights

Shares in X5 may be issued, and rights to subscribe for shares may be granted, pursuant to a resolution of the General Meeting of Shareholders or another X5 corporate body to which the General Meeting of Shareholders has delegated such authority for a time not exceeding five years. In 2017, the General Meeting of Shareholders approved a delegation of this authority to the Supervisory Board, relating to the issuance and/or granting of rights to acquire up to 6,789,322 shares (10% of the issued share capital) through 12 November 2018.

Upon the issue of new shares, holders of X5's shares have a pre-emptive right to subscribe for shares in proportion to the aggregate amount of their existing holdings of X5's shares. According to the Company's Articles of Association, this pre-emptive right does not apply to any issue of shares to employees of X5 or a Group company. Pre-emptive rights may be restricted or excluded pursuant to a resolution of the General Meeting of Shareholders or another corporate body of X5 to which the General Meeting of Shareholders has delegated such authority for a time not exceeding five years. The General Meeting of Shareholders has delegated the authority to restrict or exclude the pre-emptive rights of shareholders upon the issue of shares and/or the granting of rights to subscribe for shares to the Supervisory Board through 12 November 2018.

Articles of Association

X5's Articles of Association contain rules on the Company's organisation and corporate governance.

Amending the Company's Articles of Association requires a resolution of the General Meeting of Shareholders. A proposal to amend the Articles of Association, including the text of the proposed amendment, must be made available to the holders of shares and GDRs for inspection at the offices of X5 as of the date of the notice convening the meeting of the General Meeting of Shareholders until the end of the meeting of the General Meeting of Shareholders at which the proposed amendment is voted on.

The current text of the Articles of Association is available on the Company's website.

Anti-takeover measures and change-of-control provisions

According to provision 4.2.6 of the Code, the Company is required to provide a survey of its actual or potential anti-takeover measures and to indicate in what circumstances it is expected that they may be issued.

No special rights of control, as referred to in Article 10 of the EU Directive on takeover bids, are attached to any share or GDR in X5.

There are no important agreements to which the Company is a party and that will automatically come into force, be amended or be terminated under the condition of a change of control over the Company as a result of a public offer. However, the contractual conditions of most of X5's important financing agreements and notes issued (potentially) entitle the banks and noteholders, respectively, to claim early repayment of the amounts borrowed by the Company in the situation of a change of control over the Company (as specified in the respective agreement).

Auditor

The General Meeting of Shareholders appoints the external auditor. The Audit Committee makes a recommendation to the Supervisory Board with respect to the external auditor to be proposed for appointment or reappointment by the General Meeting of Shareholders. In addition, the Audit Committee evaluates and, where appropriate, recommends the replacement of the external auditor. The Audit Committee also pre-approves the fees for audit and permitted non-audit services to be performed by the external auditor. The Audit Committee will not approve the engagement of an external auditor to render non-audit services prohibited by applicable laws and regulations or that would compromise the independence of the auditor. Specific rules relating to non-audit work performed by the external auditor are included in X5's "Rules on External Auditor Independence and Selection". This document is available on the Company's website.

On 12 May 2017, the General Meeting of Shareholders appointed Ernst & Young Accountants LLP as external auditor for the financial year 2017.

Compliance with the Dutch Corporate Governance Code

In February 2016, the Dutch Corporate Governance Code Monitoring Committee started a consultation process that led to a revision of the Code. The amended Code was published on 8 December 2016 and entered into force on 1 January 2017. The full text of the Code can be viewed on the Company's website.

We have performed a full review of the implications for our corporate governance structure and, where relevant, have amended our internal rules, procedures and policies. In view of the revised Code, the key aspects of X5's corporate governance structure and compliance with the Code will be discussed at the 2018 Annual General Meeting.

X5 applies the relevant principles and best practices contained in the Code in the manner as described in this Corporate Governance Report. X5 generally adheres to the Code, but does not comply with the following recommendations:

2.1.7/2.1.8:

Independence of the Supervisory Board and its members

Both Mikhail Fridman and Andrei Elinson are related to companies that are owned or controlled by companies that ultimately hold 10% or more of the shares in the Company. Stephan DuCharme was a member of the Management Board immediately prior to his appointment to the Supervisory Board in November 2015. These members of the Supervisory Board are, therefore, not considered to be independent within the meaning of the Code.

In accordance with best practice provision 2.1.7, at most one Supervisory Board member may represent a shareholder who directly or indirectly holds more than 10% of the shares in the Company. Furthermore, X5 believes that the non-independent members of the Supervisory Board have in-depth knowledge of the geographic market, of business in general and of retail specifically, as well as a relevant track record in the markets in which X5 operates. This is of particular advantage to X5 and its shareholders. Meanwhile, with five independent members, the Supervisory Board has a majority of independent board members and remains committed to improving the ratio between independent and non-independent board members.

2.1.9:**Independence of the Chairman of the Supervisory Board**

In 2015, Stephan DuCharme stepped down as CEO and was appointed as Chairman of the Supervisory Board. Having carefully considered the interests of the Company and its shareholders, the Supervisory Board took the view that these interests are best served by retaining Stephan's experience and leadership for X5 in a renewed capacity as Chairman of the Supervisory Board. This offers shareholders the greatest continuity and ensures that the Chairman entrusted with X5's progress has a proven track record, as well as the confidence of critical stakeholder groups and investors.

2.2.2:**Appointment and reappointment periods of Supervisory Board members**

Mikhail Fridman was appointed as a member of the Supervisory Board in 2006. In 2017, he was reappointed for a fourth term, thus exceeding the maximum of 12 years prescribed by the Code.

Mikhail is the founder and chairman of the Alfa Group Consortium, currently the majority shareholder in X5 with a holding interest of 47.86%. X5 believes that long-term value creation stands to benefit from committed shareholders, and that the interests of Supervisory Board members holding more than 10% of the shares largely coincide with those of the Company. These Supervisory Board members are generally involved in the Company for a prolonged period of time, which fits in well with long-term value creation for the Company.

2.3.2:**Supervisory Board Committees**

"If the Supervisory Board consists of more than four members, it should designate [...] a Remuneration Committee and a Selection and Appointment Committee." As it is felt that issues related to selection, appointment and remuneration are interlinked, the Supervisory Board decided that all these activities should be dealt with by one Committee: the Nomination and Remuneration Committee.

3.3.2:**Award of shares and/or rights to shares to members of the Supervisory Board**

As determined by the General Meeting of Shareholders, members of the Supervisory Board may participate in the Company's restricted stock unit plan. X5 acknowledges that the awarding of shares to members of the Supervisory Board constitutes a deviation from the Code. However, in order to attract and reward experienced individuals with a track record that is of specific relevance to the Company, X5 believes it is necessary to allow members of the Supervisory Board to participate in the Company's equity-based remuneration plan. This structure aligns the interests of Supervisory Board members with those of shareholders and strengthens their commitment and confidence in the future of the Company. Equity-based awards given to members of the Supervisory Board are not subject to performance criteria, and are determined by the General Meeting of Shareholders.