

# Report of the 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 the Company. In performing its duties, the Supervisory Board acts in accordance with the interests of the Company and its affiliated businesses, taking into consideration the overall good of the Company and the relevant interests of all its stakeholders. In X5's two-tier corporate structure under Dutch law, the Supervisory Board is a separate body operating fully independently of the Management Board.

## Composition and profile of the Supervisory Board

X5's General Meeting of Shareholders determines the number of members of the Supervisory Board. Currently, X5's Supervisory Board consists of eight members, with a majority of five independent members. On an ongoing basis, the Supervisory Board reviews the profile of its size and (future) composition, as well as its rotation schedule, taking into account the evolving nature of X5's business and activities and the desired expertise and background of the members of the Supervisory Board. The Supervisory Board's profile is published on X5's corporate website.

At the Annual General Meeting of Shareholders on 12 May 2017, both Mikhail Fridman and Pawel Musial were reappointed for an additional four-year term, following their nomination in accordance with the rotation schedule of the Supervisory Board.

At the 2018 Annual General Meeting of Shareholders, Christian Couvreur will retire, having served two terms in office since 2010. Christian advised the Company that he will not be available for reappointment.

An overview of the current composition of the Supervisory Board and a short biography of each member is presented in the Corporate Governance Report on pages 180-181.

## Composition of the committees

While retaining overall responsibility, the Supervisory Board assigns certain tasks to its three permanent committees: the Audit Committee, the Nomination and Remuneration Committee and the Related-Party Committee. An overview of the current composition of the committees is presented in the Corporate Governance Report. In 2017, the Supervisory Board decided to dissolve the Strategy Committee as of 2018, as meetings of this committee were effectively meetings of the full Supervisory Board, with all members attending. Going forward, such meetings will be convened as dedicated strategy meetings of the Supervisory Board.

In line with corporate governance best practice, which says that the Nomination and Remuneration Committee should not be chaired by the Chairman of the Supervisory Board, Peter Demchenkov took over Stephan DuCharme's position as Chairman of the Nomination and Remuneration Committee as of 1 April 2017, with Mr. DuCharme remaining a member of the Committee.

## Induction

Induction and permanent education are key elements of good governance. Following their appointment, new Supervisory Board members go through X5's strategic, financial, legal and reporting affairs with senior executives of the Company. In addition, prior to their appointment, they attend meetings of the Supervisory Board and its committees. On an ongoing basis, and together with members of senior management, members of the Supervisory Board visit stores and distribution centres to develop deeper knowledge of local operations, opportunities and challenges.

## Meetings of the Supervisory Board

In 2017, the Supervisory Board held four regular meetings and one meeting by conference call. In addition, resolutions in writing were adopted when necessary during the year. For each of the four meetings in 2017, the Supervisory Board meeting was preceded by meetings of the Audit Committee and the Nomination and Remuneration Committee, and on three occasions the Supervisory Board meeting was preceded by a meeting of the Strategy Committee. The Related-Party Committee convened throughout the year, if and when necessary. In 2017, the Supervisory Board continued its practice of having all meetings of the Strategy Committee attended by all members of the Supervisory Board. As a result, the Supervisory Board effectively convened three times for two consecutive days, thus ensuring sufficient time for the meetings and discussions on specific themes, such as operational performance, strategy and management development. All these meetings included feedback sessions with members of the Executive Board.

All meetings were attended by the full Supervisory Board. The CEO and CFO attended the meetings, and other members of senior management were regularly invited to present. In 2017, the Supervisory Board held regular private sessions without members of the Management Board present to independently discuss matters related to the performance, functioning and development of members of the Executive Board. The external auditor attended the meeting in March at which the 2016 Annual Report and financial statements were recommended for adoption by the Annual General Meeting of Shareholders. In between the Supervisory Board meetings, several informal meetings and telephone calls took place among Supervisory Board members and members of the Management Board and other Company management to consult with each other on various topics and to ensure that the Supervisory Board remained well informed about the running of the Company's operations.

The Supervisory Board confirms that all Supervisory Board members have adequate time available to give sufficient attention to the concerns of the Company. In 2017, the attendance rate was 100% for both the Supervisory Board and the committee meetings.

## Activities in 2017

In 2017, the Supervisory Board reviewed various matters related to all significant aspects of the Company, its activities and operational results, its strategy going forward and the management team and its development. Throughout the year, the Board continued to monitor the implementation of X5's corporate strategy, with a focus on operational discipline, sustainability and long-term value creation.

During its strategy meetings, convened by the Strategy Committee, the Supervisory Board devoted considerable time to key areas that are critical to supporting the Company's long-term growth strategy, recognising that strong growth in a competitive environment and challenging macroeconomic conditions are demanding for both people and the Company. Key areas discussed were the supply chain strategy, the human resources strategy to support the rapidly expanding store base, and the IT strategy, with a focus on IT infrastructure and security.

In addition, as part of its strategic cycle, the Supervisory Board reviewed a progress update of X5's "Strategic Vision 2020", which served as a framework for the medium-term plan approved in September. In this context, the Supervisory Board extensively discussed X5's current and future capability and requirements in terms of organisation, leadership and corporate culture to ensure sustainable growth in a rapidly transforming retail landscape driven by innovative business concepts and omni-channel retailing.

As part of the ongoing performance review of the Company's various functions and business divisions, the main topics reviewed and discussed by the Supervisory Board included:

- the sustainable leadership strategy for the Pyaterochka and Perekrestok retail formats, with a focus on disciplined growth and operational efficiencies;
- the organisational structure and leadership requirements in light of the Company's rapid growth, including the role and size of the Corporate Centre in support of a decentralised business model;
- the performance and value proposition of the hypermarket format (Karusel);
- category management;
- the divestment of Perekrestok Express, in line with the Company's strategy to concentrate on its three main retail formats;
- the Company's new dividend policy.

In addition, throughout the year, the Supervisory Board discussed the following (regular) topics:

- the financial reporting process and in particular the approval of the 2016 Annual Report and review of the 2017 half-yearly and quarterly financial reports;
- reports by the internal and external auditors;
- the regular assessment of the members of the Executive Board, including talent management and succession planning;
- a review of the profile and composition of the Supervisory Board, particularly in the context of the in-depth board evaluation performed by an external evaluator during the second half of the year;
- the corporate responsibility strategy, including consideration of the Dutch decree on disclosure of non-financial information, implementing EU Directive 2014/95;
- corporate governance developments, including an impact assessment of the new Dutch Corporate Governance Code that entered into force on 1 January 2017;
- X5's risk landscape and risk appetite, as well as risk mitigation measures and internal controls;
- M&A strategy, including the acquisition of O'KEY supermarkets in December;
- The annual budget for 2018.

## Board evaluation

X5 undertakes an annual review of the Supervisory Board, its committees and its individual members. The evaluation operates on a three-year cycle, with one externally led evaluation followed by two subsequent years of internal evaluations. Following this cycle, the 2017 evaluation was performed by an external party by means of a questionnaire, individual interviews and observation of the Board and committee meetings held in September. Fidelio Partners was engaged as the external evaluator.

Items assessed and subsequently discussed included: the profile and composition of the Supervisory Board, members' skills and expertise, oversight of business performance, risk and governance processes, responsibility for the culture within X5, effectiveness in overseeing strategy, effectiveness of the committees in alleviating the Board's overall oversight and the relationship with the Executive Board. In addition to the self-assessment by the Supervisory Board members, input was also solicited and received from selected members of the Executive Board and members of the Management Board.

The main conclusions of the evaluation were collectively discussed by the Supervisory Board at its meeting in December. The evaluation concluded that the Board felt its work and performance during the year had been positive. There had been an effective process to develop and refresh the group's "Strategic Vision 2020", and Board discussions remained open and constructive. Key points of attention resulting from the evaluation in 2017 included enhanced focus on the profile and composition of the Board, making sure that the Board remains "fit for tomorrow", further emphasis on the induction and development of new and current Board members, and improving the effectiveness of discussions in the boardroom.

The Supervisory Board attaches great value to these evaluations. They ensure continuous focus on the quality of the activities, composition and functioning of the Supervisory Board and its Committees and relationship with the Executive Board.