

Meetings of the committees

Audit Committee

The role of the Audit Committee is described in its charter, which is available on the Company's website. On 31 December 2017, the Audit Committee consisted of Geoff King (Chairman), Christian Couvreur, Pawel Musial and Andrei Elinson. In 2017, the Audit Committee held four meetings in person. Additional meetings were held by conference call when necessary, for instance to review the publication of the half-yearly results. As a rule, all meetings were attended by the CFO, the external auditor and the internal audit director. Other members of the Supervisory Board and senior management were invited when necessary or appropriate. The Audit Committee met once with the external auditor without the presence of management.

The Audit Committee's focus in 2017 was, among other things, on overseeing the integrity and quality of X5's financial reporting and the effectiveness of the internal risk and control systems. The Audit Committee reviewed the Company's annual and interim financial statements, including non-financial information, the quarterly results and related press releases, as well as the outcomes of the year-end audit. The Audit Committee discussed relevant accounting principles and reviewed new accounting standards for financial instruments under IFRS 9, revenue recognition under IFRS 15 and lease accounting under IFRS 16. Throughout the year, the Audit Committee reviewed the level of financial provisions, key movements in the balance sheet, working capital changes and any contingent liability movements.

Furthermore, the Audit Committee reviewed and approved the audit plans of the internal and external auditors, with a focus on scoping, materiality and key risks. The Audit Committee monitored the progress of the internal and external audit activities, including a review of observations identified as a result of the internal audit activities during the quarter, quarterly procedures performed by the external auditor and the audit performed at year end by the external auditor. The Audit Committee oversaw follow-up by management on the recommendations made in the internal and external management letters. The Audit Committee assured itself of the independence of the external auditor and reviewed requests for non-audit services provided by the external auditor, in line with the Company's Rules on External Auditor Independence and Selection.

The Audit Committee closely monitored risk management and the risk management process, including the timely follow-up to high-priority actions and risk mitigation measures based on quarterly progress updates. A substantial amount of attention was paid to a review of the Company's risk profile and the approach and methodology for establishing the Company's risk appetite. Furthermore, specific attention was paid to risk management and controls in the area of data protection and cybersecurity.

The Audit Committee extensively discussed the effectiveness of the internal control framework. This included scoping, framework updates in the context of the internal control strategy for 2017-2020, control execution and control assessments. Each quarter, the agenda includes a discussion on current control topics, including internal audit findings and the external auditor's reflections on the control framework. These discussions guided management and Internal Audit to focus on the right priorities throughout the year and to build a relevant internal audit plan for 2018.

In the context of the quarterly ethics and compliance updates and whistle-blower reports, the Audit Committee dedicated specific attention to detection and prevention of fraud, corruption and illegal practices, and risk mitigating measures to protect the Company in these areas. In the second half of the year, the Audit Committee reviewed the Company's renewed anti-fraud and corruption policy and monitored its implementation throughout all levels of the organisation.

Throughout the year, the Audit Committee continued to review the operational control framework, paying particular attention to stock and fixed assets. Management processes concerning stock-holding and loss levels were examined across all formats. The Audit Committee also closely monitored the effectiveness of the capital investment process, the appraisal methodology and the safeguarding of core assets. Twice during the year, the Audit Committee reviewed an assessment of the level of returns from recent investments, as well as management actions addressing underperforming stores and assets whose carrying value were impaired.

The General Meeting of Shareholders determines the remuneration of the members of the Supervisory Board. The detailed amounts are stated in notes 26 and 27 to the consolidated financial statements

The Audit Committee also discussed other issues, including:

- the external auditor's report with respect to accounting and audit issues and internal control recommendations in respect of their audit of the 2016 consolidated financial statements;
- quarterly interim financial reports and trading updates;
- X5's financing strategy;
- the Company's new dividend policy;
- tax policy and planning management and residual tax risks, with specific attention to the group's corporate tax structure;
- material legal cases;
- regulatory compliance and changes in legislation, with ongoing attention in 2017 to amendments to the Russian Trade Law that entered into force in 2016, and the impact on the Group's working capital and product margin structures as a result of tighter payment-related provisions in contracts with suppliers;

With respect to the external auditor's management letter about the 2017 financial year, the Audit Committee confirms that the management letter contained no significant items that need to be mentioned in this report.

Nomination and Remuneration Committee

The role of the Nomination and Remuneration Committee is described in its charter, which is available on the Company's website. On 31 December 2017, the Nomination and Remuneration Committee consisted of Peter Demchenkov (Chairman), Stephan DuCharme, Christian Couvreur and Andrei Elinson. The Nomination and Remuneration Committee held five meetings in 2017, including one held by conference call. The CEO was invited to attend every meeting, and other members of the Supervisory Board and senior management were invited when necessary or appropriate.

In 2017, the Nomination and Remuneration Committee continued to focus on succession planning, management development and human resource needs in relation to the Company's multi-format operating model and growth objectives. The Nomination and Remuneration Committee further reviewed and prepared the following items for recommendation or report to the full Supervisory Board, as part of its ongoing responsibilities:

- the annual assessment of the Management Board and Executive Board and its individual members;
- governance and organisational structure, including the role of the corporate centre in support of the decentralised operating model;
- management changes, including the appointment of Svetlana Demyashkevich as CFO and member of the Executive Board, succeeding Dmitry Gimmelberg as of 1 July 2017;
- the nomination of Mikhail Fridman and Pawel Musial for reappointment to the Supervisory Board at the 2017 Annual General Meeting of Shareholders;
- evaluation of the Supervisory Board and its individual members and committees;
- proposals on the remuneration of individual members of the Management Board and Executive Board;
- principles of a new long-term incentive programme to support the Company's strategy for sustainable growth and value creation.

For information on the remuneration policy, see "Remuneration" on pages 188-191. Details of actual remuneration in 2016 can be found in notes 26 and 27 to the consolidated financial statements.

The Supervisory Board

28 March 2018

Related-Party Committee

The role of the Related-Party Committee is described in its charter, which is available on the Company's website. On 31 December 2017, the Related-Party Committee consisted of Geoff King (Chairman) and Michael Kuchment. In 2017, the Related-Party Committee convened once in person; resolutions in writing were adopted when necessary during the year. Under the Company's Related-Party Transactions Policy, the Related-Party Committee reviews transactions of a recurring nature that are pre-approved by the Supervisory Board, transactions with a materiality threshold for either the Company or members of the Supervisory Board, Management Board and Executive Board, and transactions that qualify as significant related-party transactions as defined in the policy. Pursuant to this policy, the Related-Party Committee specifically discussed the following transactions in 2017:

- service agreements with Alfa Services Limited;
- a loyalty card agreement with Alfa-Bank;
- a licensing agreement with Alfa-Bank related to the use of Company trademarks belonging to the Company or one of its Group companies;
- a bank card agreement with Sovcombank;
- an agreement with Beeline for fiscal data processing services.

These transactions were discussed and approved by the Related-Party Committee and/or the Supervisory Board with due observance of best practice provisions 2.7.3 and/or 2.7.5 of the Corporate Governance Code, as well as the rules set forth in Article 10 (Conflicts of Interest) of the rules of procedure of the Supervisory Board, which are available on the Company's website. The Supervisory Board determined that, to the extent that any of the listed transactions constituted a conflict of interest for certain members of the Supervisory Board, such conflict did not undermine the independent judgment of these Board members while performing their duties for X5.

Financial statements

This Annual Report and the 2017 consolidated financial statements, audited by Ernst & Young Accountants LLP, were presented to the Supervisory Board in the presence of the Management Board and the external auditor. Ernst & Young's report can be found on pages 265-275.

The Supervisory Board recommends that shareholders adopt these financial statements and, as proposed by the Management Board, appropriate RUB 21,590 million for dividend payments for the 2017 financial year, representing 69% of net profit. The proposed dividend amounts to RUB 79.5 per GDR. An amount of RUB 9,804 million, representing the remaining amount of the profit for the 2017 financial year, will be added to the retained earnings.

The Supervisory Board furthermore requests that the Annual General Meeting of Shareholders grant discharge to the members of the Management Board for their management and to the members of the Supervisory Board for their supervision in 2017.

The Supervisory Board wishes to express its sincere appreciation for the results achieved and would like to thank the Executive Board and all X5 employees for their continued dedication and efforts in 2017.