

Business conduct review

Key objectives

Ensuring the Company's compliance with laws on combating bribery and commercial subornation is a key objective of its Policy on Countering Misconduct, Including Fraud and Corruption.

X5 RETAIL GROUP



Policy highlights

- Combating corruption is one of our Company's key objectives. Measures taken in this area include:
 - establishing effective procedures and initiatives to prevent corruption
 - forging a corporate culture of honesty and zero tolerance for corrupt behaviour
 - minimising the risk of the Company's involvement in corrupt activities
- We have adopted a Declaration on Human Rights.
- The Company tolerates no discrimination on any grounds or forced labour with respect to its employees, customers, or partners. Every employee has equal opportunities for merit-based recognition and career growth regardless of sex, race, colour, nationality, language, social or occupational position, age, attitude towards religion, as well other factors not related to the employee's professional qualities.
- X5 protects its employees from any physical, verbal, sexual or psychological abuse in the workplace. The Company fosters respect and ethical working conditions.
- We respect, and pay due regard to, cultural values and customs of local communities across our footprint, including those of indigenous minorities.
- The Company respects the rights of its employees to establish, join or not join trade unions or other associations supporting their interests.
- The Company provides a healthy and safe workplace for its employees in compliance with regulatory occupational health and safety requirements.
- The Policy on Countering Misconduct, Including Fraud and Corruption, applies to all Company employees, including senior management and members of governance bodies.

System highlights

- Our key measure of performance in the area of business conduct is the successful introduction and implementation of business processes aimed at reducing compliance risks in the areas of preventing fraud, corruption, management of conflicts of interest and protection of personal data.
- Our key measure of performance in the area of human rights is the successful introduction and implementation of policies and procedures that ensure our company is able to monitor and respond to human rights issues that may be encountered by our employees or other stakeholders.

- Responsibility for investigating and addressing human rights issues is held by the Risk and Monitoring Division, the Security Division and the Organisational Development Division.
- The Organisational Development Division is also responsible for training activities aimed at ensuring that X5 employees are familiar with our human rights policies and procedures.
- X5 Retail Group has established channels for employee and counterparty messages on violations of laws and internal regulations, including:
 - an ethics hotline (for reporting human rights violations or unlawful or corrupt behaviour) and
 - a hotline for the Head of Security (for reporting unscrupulous practices by staff).
- Any corruption-related or human rights violation is subject to an internal investigation. The Company investigates any instances of suspected corrupt activity or human rights violations.
- We regularly monitor bribery and corruption risk levels as part of day-to-day operations at all levels of the business.
- Our anti-bribery and corruption policies extend to our supplier contracts, which are in the process of being updated to reflect these policies.
- We have an experienced and knowledgeable investor relations team that ensures that we conduct regular dialogue and communications with our current and potential shareholders.

2017 performance highlights

- In September 2017, X5 Retail Group adopted a Policy on Countering Misconduct, Including Fraud and Corruption. This is X5's main internal regulation that sets out the approach and principles used by the Company in combating corruption (bribery and commercial subordination) by its employees and counterparties. This document establishes the Company's zero-tolerance policy towards corruption and fraud.
- We have sought to ensure that all employees have familiarised themselves with this new policy, and as of 18 March 2018, we achieved the following progress:

Status of review of Policy on Countering Misconduct, Including Fraud and Corruption

| | Number of employees | % of total employees |
|---------------------------------|---------------------|----------------------|
| Corporate Centre | 646 | 100 |
| Pyaterochka (office) | 8,808 | 100 |
| Pyaterochka (retail operations) | 145,384 | 88.6 |
| Perekrestok | 28,115 | 87 |
| Karusel | 13,114 | 100 |
| Transport | 2,201 | 100 |
| Perekrestok Express | 975 | 100 |

- Conducted training for senior management at the Corporate Centre and the retail formats to explain key areas of the Policy on Countering Misconduct, Including Fraud and Corruption.
- Worked with external consultants to establish a checklist for X5's adherence to international best practice in anti-corruption measures.
- In order to comply with European and Russian human rights legislation, X5 Retail Group adopted a Declaration on Human Rights. This Declaration specifies its principles and rules in respect of compliance with, and promotion of, high international standards for the protection of human rights at every stage of the Company's operations. These principles and rules are based on recognition of a human being's dignity, as well as the freedom and equality of all people.
- Reviewed and updated electronic service by which employees may declare conflicts of interest, and analysed compliance related to currently declared conflicts of interest.
- We complied with Russian legislation governing personal data protection, and analysed potential compliance risks in relation to the EU's General Data Protection Regulation that takes force from May 2018.
- The Company maintains an anonymous whistleblower hotline: in 2017, the hotline received 1,826 complaints that were investigated, which resulted in 218 violations being identified and addressed. A total of 3,194 complaints were received about Labour Code violations.
- In 2017, the ethics hotline received 5,020 complaints related to violations of the Labour Code of the Russian Federation and X5's Code of Business Conduct and Ethics. The Company conducts internal investigations on all reports received via the hotline. In the event that a violation is found, all necessary measures are taken: elimination of the violation (when possible), launching legal cases or investigations against the violators, changing business processes (if necessary).
- In order to reduce compliance risks, support staff morale and improve the Company's reputation as a responsible employer, X5 has begun automating certain parts of the whistleblower hotline in order to improve response time and efficiency and quickly identify major issues.
- Every employee that joins an X5 Retail Group company must confirm that they are familiar with the Code of Corporate Conduct as part of the on-boarding procedures.
- In 2017, we launched a distance learning course for new employees to help acquaint them with key areas of the Code of Conduct.