X5 RETAIL GROUP

CODE OF INTERACTION WITH BUSINESS PARTNERS

MOSCOW 2015
Content

I. Introduction .......................................................................................................................... 2
II. Principles of interaction with business partners ............................................................... 2
   1. Compliance ....................................................................................................................... 3
      1.1. Compliance with relevant industry legislation and regulatory requirements ................ 3
      1.2. Compliance with anti-trust legislation ........................................................................ 3
      1.3. Anti-corruption and anti-fraud legislation .................................................................. 4
      1.4. Compliance with quality regulations .......................................................................... 4
      1.5. Compliance with finance, accounting and taxation regulations .............................. 4
      1.6. Compliance with labor and labor safety regulations .................................................. 4
      1.7. Compliance with environmental regulations ........................................................... 4
   2. Diligence .......................................................................................................................... 4
      2.1. Good practices and ethical standards of Partner selection ......................................... 4
      2.2. Good practices and ethical standards of contracts negotiation ................................. 5
      2.3. Good practices of cooperation .................................................................................. 5
         2.3.1. Information security ............................................................................................. 5
         2.3.2. Conflicts of interest ............................................................................................. 5
         2.3.3. Business gifts ....................................................................................................... 5
         2.3.4. Compliance with the Company’s rules while working on Company premises .......... 5
         2.3.5. Transparency and accuracy of settlements .......................................................... 6
         2.3.6. Due delivery ......................................................................................................... 6
         2.3.7. Business continuity and crisis management ......................................................... 6
   III. Liability for the Code violation ..................................................................................... 6
   IV. Reporting violations ....................................................................................................... 6
I. INTRODUCTION

X5 Retail Group is one of Russia’s leading retailers. Our business affects the interests of more than one hundred thousand employees and millions of consumers.

For the purposes of this document, X5 Retail Group (hereinafter referred to as “the Company”) shall be understood to mean X5 Retail Group N.V. and all of its subsidiaries and controlled companies.

We conduct our business in a highly competitive environment, with a highly developed and complex legal system. We also take into consideration the significant role of the state in regulating our industry.

We are integrated into the global community though cooperation with our international partners and through our securities trading on foreign exchanges.

We acknowledge our responsibility to the state, the community, and to shareholders and partners. Our intention therefore is to build our business based on strict observance of legal and ethical standards.

We are expected to use the best corporate practices and to set an example to other market players.

***

The aim of the present Code (hereinafter “the Code”) is to establish standards for doing business that we expect our employees and partners to comply with.

We expect that X5’s business partners will sign up to the Code, and that the proposed standards will help to enhance the integrity, transparency and efficiency of our cooperation.

We expect our employees and partners to implement the principles set out in this Code in their day-to-day activities and to report any cases of noncompliance using available contact forms.

***

To maintain the relevance of the Code, it may be updated from time to time based on feedback from internal and external stakeholders.

II. PRINCIPLES OF INTERACTION WITH BUSINESS PARTNERS

The principles set out here are designed for current or potential partners as well as for X5 employees, who are expected to know them and adhere to them in their business activity.

For the purposes of this document, “Partner” means an entrepreneur or organization wishing to conclude an agreement with the Company or already having a contractual relationship with the Company.

1. COMPLIANCE

The Company strives to ensure strict compliance with current legislation. We expect Partners to adhere to the same principle in their operations.

In particular, we expect Partners to adhere to the following rules and regulations:

1.1. Compliance with relevant industry legislation and regulatory requirements

We expect that Partners are duly registered as legal entities and possess all the necessary licenses, permits, approvals and permissions, taking into account the specifics of their activities.

We also expect them not to be engaged in any restricted or prohibited activities.

1.2. Compliance with anti-trust legislation

The company requires that both employees and partners comply strictly with the requirements of current legislation and avoid illegal actions and agreements.

In particular, the company complies with the requirements of Federal Law №381-FZ «On the basics of state regulation of commercial activities in the Russian Federation» and Federal Law №135-FZ «On Protection of Competition».

We emphasise to our employees that the exchange of financial and commercial information with competitors, regardless of the purpose of communication, is considered inadmissible.
It is not allowed, in particular, to exchange prices, commercial terms, selling/purchasing terms and conditions, costs, marketing plans or budgets.

1.3. Anti-corruption and anti-fraud legislation

We expect that Partners will avoid involvement in any form of corruption, bribery and extortion, and that they will follow the requirements of money-laundering legislation.

Therefore we expect, in particular, that Partners will not take any actions aimed at putting pressure on the authorities and market participants to obtain economic benefits.

We declare zero tolerance to bribery, namely offering, promising, and authorizing the transfer or transmission of any material or intangible assets to state or municipal officials or persons with special legal or political status, regardless of location. Any similar influence being exerted on business partners to obtain any business or economic benefits is also prohibited.

We do not tolerate extortion, hostile actions and other illegal ways of conducting business.

If it is discovered that a Partner is involved in any of the above mentioned activities, including aimed at the Company or its employees, the Company reserves the right to terminate its business relationship with the said Partner without any reimbursements.

1.4. Compliance with quality regulations

We expect of our Partners:

- The products or services provided by the Partner are duly certified and approved for usage on the territory of the Russian Federation and, where appropriate, have passed all proper control procedures.

- The quality of their products or services must conform to the legislation of the Customs Union, the decisions of the Eurasian Economic Community, decisions of the Commission of the Customs Union and internal standards of the Company.

- Compliance with not only state regulations but also with industry standards and regulations set for safety and quality of products and services.

- High quality and safe manufacturing, technologies and business processes.

1.5. Compliance with finance, accounting and taxation regulations

We expect Partners to maintain reliable and transparent financial records and not to use extra-legal tax optimization schemes.

We expect that all transactions between the Company and the Partners are properly and timely recorded in the accounting records. No "private" transactions are permissible.

1.6. Compliance with labor and labor safety regulations

We expect from our Partners that they will observe the existing labor legislation when hiring and employing personnel.

We also expect that Partners consider the safety of life and health of workers and the protection of their labor rights as a top priority.

1.7. Compliance with environmental regulations

Partners should treat environmental issues with the utmost seriousness and promote environmental awareness.

The company welcomes Partners introducing their own environmental management systems and environmentally friendly technologies.

2. DILIGENCE

2.1. Good practices and ethical standards of Partner selection

- Uniform standards. Prevention of all forms of discrimination.

The choice of Partners is made in accordance with uniform criteria based on economic efficiency.

- Transparency and openness.

The Company provides Partners with open access to information about the terms and conditions, selection process, tenders as well as proper feedback and reasoned justification in the event of rejection.

- Privacy.

The Company guarantees confidentiality of information provided by Partners.
• Efficiency.
When choosing a vendor, we focus on the quality-price ratio, and focus on optimizing costs and improving the efficiency of our business processes.

• Due diligence.
Based on proper risk management and awareness of our social responsibility, the Company shall perform due diligence of Partners in terms of their integrity and compliance.

2.2. Good practices and ethical standards of contracts negotiation

We expect that the contract negotiating process will be based on the following principles:
• Equality, freedom to enter into any contract not prohibited by the law.
• Fair risk allocation.
• Transparency of contractual terms.
• Transparency, openness, accuracy and politeness of commercial negotiations,
• Avoidance of inconsistent actions and misrepresentation.
• Timely feedback and strict adherence to agreements.

2.3. Good practices of cooperation

2.3.1. Information security

We expect that our Partners will ensure the protection of Company’s confidential information and will take all appropriate measures to prevent illegal distribution.

We also do not allow public and private comments and interviews made on behalf of a Partner or with participation of X5 Retail Group without the prior approval of an authorized employee of the Company.

2.3.2. Conflicts of interest

The Company implements controls to prevent conflicts of interest, such as when an employee enters into a relationship with a Partner that contradicts the Company’s interests.

Partners are therefore advised not to hire or otherwise engage with employees of the Company during the period of their relationship with the Company (unless a longer period is stipulated by the contract), as well as refrain from making job offers or using any other forms of influence on employees to obtain economic benefits.

We expect that Partners will avoid situations that might lead to conflicts of interest, and that they will properly disclose potential or existing conflicts of interest and contribute to their settlement.

2.3.3. Business gifts

Employees should not accept any gifts or other forms of promotion from Partners other than as stipulated by the Code of Conduct adopted by the Company.

In particular, employees are prohibited from the following actions if they are related to the performance of their responsibilities:
• accept or offer any gift or entertainment in exchange for favors, or under a circumstance that could raise the suspicion of improper influence or conduct;
• ask for gifts or entertainment;
• accept or offer gifts or cash.

Any gifts (including business trips, event tickets, entertainment, promotional materials, food products, loans and other favors, received from any Partners, government, or any person) must not influence business decisions or the signing of deals.

Employees are allowed to accept a gift with a total value up to RUB 3000.

2.3.4. Compliance with the Company’s rules while working on Company premises

It is expected that employees and representatives of Partners shall adhere to the Company’s approved policies and procedures. We emphasize the importance of compliance with the following rules in particular:
• Security and admission rules;
• Labor safety and accident prevention;
• Environmental protection;
• Prohibition of improper behavior (rudeness, smoking, use of alcohol, drugs or toxic substances, etc.).

We expect Partners to take full responsibility for their representatives’ actions whilst they perform any operations at the Company’s locations, as well as ensure their safety and proper work conditions.

2.3.5. Transparency and accuracy of settlements

Settlements must comply with contractual terms and the goods or services delivered. The parties should not abuse their rights. Mutual settlements and exchange
of accounting documents must be made accurately and in compliance with agreed deadlines.

2.3.6. Due delivery

We are committed to finding efficient solutions and developing mutually beneficial cooperation.

We expect that all contractual obligations will be fulfilled. We expect that any changes made to the obligations will be based on mutual negotiations of the parties.

We expect Partners to produce their own goods/services or to have direct contracts with official distributors, as we are interested in building an efficient and high-quality supply chain.

If a Partner hires a subcontractor to perform his contractual obligations, the Partner must ensure that the subcontractor complies with the requirements of this Code.

2.3.7. Business continuity and crisis management

The Company expects that Partners shall have adequate procedures in place to ensure business continuity and allow delivery of products or services to be resumed as swiftly as possible in case of technical failures.

III. LIABILITY FOR THE CODE VIOLATION

We expect that Partners will implement proper internal controls and risk management to ensure compliance with applicable laws and maintenance of good practices and business ethics.

The Company reserves the right, if necessary, to contact Partners and to request information to evaluate the efficiency of such systems.

Refusal to provide such information or providing false information may be treated as misconduct.

IV. REPORTING VIOLATIONS

We encourage Partners to declare any alleged violations of this Code, including cases where Partners believe that their rights have been violated by actions of the Company or its representatives. For that purposes we have established a Conciliation Commission.

The Conciliation Commission plays as a corporate arbitrator in a dispute situations with business partners. The Commission has been established to facilitate the resolution of the conflicts involving X5 Retail Group and its Partners. The objectives of the Commission also include improving the efficiency of contract work, creating a platform for direct dialogue with business partners, and resolving disputes.

The main functions of the Commission include:

- Complaints regarding the process of Partners’ selection and their disqualification,
- Detecting problems in contractual work,
- Preparation of recommendations and proposals based on the findings prior to their further submission to the Company’s management.

You may report violations of the Code using the feedback form at . The completed application should be sent to compliance@x5.ru.

Key rules and principles of the Conciliation Commission are available on the Company’s official website.

The Company does not practice any harassment/discrimination against employees who in good faith report violations of this Code or assist investigations conducted upon such reports.

We expect Partners to apply similar principles of avoiding prosecution/discrimination against whistleblowers.