

## CONDITIONS FOR THE SELECTION OF CONTRACT PARTNERS TO ENTER INTO SUPPLY CONTRACTS

The objective of business activity of economic agents engaged in retail business and being part of one group of entities with X5 Retail Group N.V. (hereinafter - the "Company"), within the meaning of article 9 of Federal Law dated 26.07.2006 No. 135-FZ "On safeguarding competition" is the provision of consumers with a wide assortment of high quality goods at economically reasonable prices, meeting the requirement for price to quality ratio of the goods.

Such objective may be achieved subject to:

- Compliance by the Company and the Suppliers with the requirements of legislation of the Russian Federation;
- Free exercise of choice and mutually beneficial cooperation of the parties;
- Giving to the Suppliers of equal opportunities for the entry into a supply contract with the Company.

### 1. Principles of interaction

- 1.1. **Single standards.** The Company shall carry out the selection of Suppliers on the basis of single criteria established on the basis of economic performance targets. It shall not be admissible to refuse the conclusion of supply contract on the grounds not provided for by these Conditions for the selection of contract partners to enter into supply contracts (hereinafter – the "Conditions of selection").
- 1.2. **Transparency and openness.** In the process of interaction with the suppliers, the Company will give them access to the information on Conditions of selection and to the draught supply contract published on Company website at <http://www.x5.ru/en/Pages/Partners/SubmitProposal.aspx>. The contacts of designated employees of the Company in charge of various directions of goods' procurement for all retail chains and regions of operations of the Company, including their e-mails and phone numbers, are published on Company website at <http://www.x5.ru/en/Pages/Partners/ContactExpertProcurement.aspx>. The Suppliers may also apply to the Company through dedicated resource "Hotline for Communications with suppliers" available on the Company website at <http://www.x5.ru/en/Pages/Partners/HotLine.aspx>.
- 1.3. **Confidentiality.** Being guided by principles of transparency and openness in mutual relations with the Suppliers, the Company recognises the Supplier's right to trade secret and confidentiality of information provided by it to the Company.
- 1.4. **Efficiency.** The Company aims at selling through its retail chain the high quality goods at economically reasonable prices by means of selection of most favourable conditions of cooperation with the Suppliers. The Company uses all efforts to optimise costs at stages of goods' delivery from a manufacturer to a retail customer.
- 1.5. **Reasonable care.** Where possible and required the Company shall carry out check of Suppliers for their good faith and their compliance with the legislation of the Russian Federation. At the same time when selecting a contract partner preference will be given to those Suppliers who have been carrying out trading activity for a sufficiently long time and have proved themselves in the market as reliable partners focused on long-term cooperation with the buyers of goods.

### 2. Criteria for the selection of contract partners to enter into supply contract

#### 2.1. Supplier's good standing and reputation

- The Supplier is duly registered as a legal person or an individual entrepreneur;
- The Supplier is not in liquidation;
- No bankruptcy procedures have been introduced (opened) in respect of the Supplier;
- There have been no facts of non-fulfilment or inadequate fulfilment by the Supplier of its assumed obligations to the Company or other parties to business transactions;
- There is no information concerning claims having been made to the Supplier on part of antimonopoly, tax, customs and other government bodies for breaches of regulatory requirements relating the trading activity, including antimonopoly law, that have become effective and binding on the Supplier.

## **2.2. Price quotation**

- The procurement price of the goods should be competitive.

## **2.3. Products offering**

- The samples of goods provided by the Supplier at the Company's request shall undergo the analysis in the Company for conformity to organoleptic and other parameters of quality, to the documents provided (certificates of conformity, declarations of conformity), labelling requirements. If there are doubts concerning quality of the goods' samples or signs of its falsification are revealed, such samples may be dispatched for the performance of laboratory studies;
- Quality of the goods should conform to the requirements of sanitary, technical and all other applicable norms and standards of the Russian Federation, Customs Union, Eurasian Economic Union;
- The goods should have bar code;
- Packing of the goods should ensure their integrity during transportation, handling and storing at the Company's distribution centre. External packing of the goods should be made of strong cardboard or other material allowing the goods to be transported and stored on pallets, and also withstand not less than five reloads of the goods to various storage or transportation locations;
- The goods should have marks and contain information in accordance with the requirements of legislation of the Russian Federation, be accompanied with documents confirming quality, safety, origin of the goods, phytosanitary condition, veterinary and sanitary condition, legal manufacturing and trade, as well as other documents provided for by the legislation of the Russian Federation;
- The requirements to the goods under "Vegetables/fruits" are set forth on the Company website in section "Process of procurement of fruits and vegetables" at: <http://www.x5.ru/ru/Pages/Partners/PurchaseFresh.aspx>.

## **3. Manners of arranging interaction with the Company**

### **3.1. Search for the Supplier will be initiated by the Company:**

The Company's responsible employees in charge of various categories of goods will independently carry out search for potential suppliers to supply necessary goods, in these instances:

- An alternative Supplier of specific goods is determined which is able to make supplies for the Company;
- If the goods are not represented in the Company and there is need for them, or are represented but an increase in volumes of the goods supplied is needed, including due to the opening of new retail facilities, or their substitution with other goods due to identification of breaches [of requirements] made to the goods, or a supplier's non-fulfilment or inadequate fulfilment of its obligations under a supply contract;
- Need arises in the Company to look for potential suppliers in other instances.

The Company's employees in charge of various categories of goods will carry out search for potential suppliers by means of open sources, and also in the database of commercial offers being received by the Company.

### **3.2. The Supplier will initiate cooperation with the Company by means of:**

- Participations in electronic auctions (tenders):

Suppliers may inform themselves about information concerning auctions for the procurement of goods being held, except for the goods under Proprietary Trade Marks (PTM), on Company website at [https://tender.x5.ru/auction/guiding/list\\_auction/2-start](https://tender.x5.ru/auction/guiding/list_auction/2-start) and take part in the auctions.

Suppliers may inform themselves about information concerning auctions for the procurement of goods under Proprietary Trade Marks (PTM) on Company website at [https://tender.x5.ru/auction/guiding/list\\_auction/3-start](https://tender.x5.ru/auction/guiding/list_auction/3-start) and take part in the auctions.

- Dispatches of commercial offers:

Suppliers may send their commercial offer by taking advantage of the service realised on Company website at <http://www.x5.ru/en/Pages/Partners/SubmitProposal.aspx>. The Supplier is proposed to fill electronically the commercial offer form providing all necessary information.

The period of giving reply by the Company to the Supplier is 14 calendar days from the date commercial offer reaches the Company.

All commercial offers received by the Company will be stored in the database of commercial offers. When need arises in the Company for alternative suppliers and/or the goods the commercial offers received may be reconsidered in accordance with these Conditions of selection.

## **4. Procedure for the consideration of commercial offers**

The selection of a contract partners to enter into supply contract will be made on the basis of overall evaluation of a commercial offer, including regarding the assortment, the prices proposed, potential volumes and frequency of deliveries, geography of deliveries, logistics.

The assortment matrix by categories will be reviewed for the purpose of looking for new product positions, removing from the assortment of product positions having insignificant demand with retail customers, or replacing the goods being sold with similar goods which are expected to have higher demand, or due to interruptions of deliveries of the goods, and also due to other circumstances affecting proper realisation by the Company of retail activity.

The need for a review of assortment matrix will depend on various reasons and it will be carried out by a decision of each retail chain's management.

The Company will have the right to request from the Supplier additional information concerning it and the goods supplied by it.

**When selecting the contract partners' commercial offer to enter into supply contract preference will be given where:**

- The Supplier has own facilities for the production, packing and storage of manufactured goods;
- The Supplier has current supply contracts with other economic entities engaged in trading activity (with a retail chain) concerning the goods being offered to the Company;
- It has additional internationally recognised certificates of quality;
- The Supplier is prepared to carry out electronic document circulation with the Company via EDI system;
- The Supplier has registered trademarks;
- It is prepared to manufacture goods under the Company's PTMs, there are operating contracts for supply of goods under PTMs with the Supplier's contract partners;

- It is prepared to make group shelf packaging of "Show Box" type allowing the display of goods;
- It is prepared to discuss with the Company the packing, weight, properties of new products before their release; it is prepared to make the packing and the goods in conformity with Company requirements;
- The Supplier is prepared to perform shipment of the goods on daily basis;
- The Supplier has manufactured, sold the goods in a given category for not less than a year;
- It is capable to make independently the customs clearance of imported goods.

**Reasons for refusal to enter into the supply contract:**

- Completeness of assortment matrix at the time of the Supplier's application. Same (or similar) goods are being supplied to the Company in sufficient volume by other Suppliers;
- Supplier's failure to meet one or several criteria of contract partners selection established by these Conditions of selection;
- Supplier's failure provide the documents necessary for the conclusion of contract.

In the event of reaching agreement under all substantial and other provisions of contract with a contract partner the Company will enter into the supply contract.

Any disagreements arising between the Company and the Supplier at a stage of coordination of the conditions of delivery and at subsequent stages of cooperation will be resolved through negotiations.

Where the Supplier disagrees with the results of cooperation with the Company it may apply for resolution of a disputable situations to the conciliatory commission the details of which are published on Company website at <http://www.x5.ru/en/Pages/Partners/ConciliationCommittee.aspx> or to send the complaint through dedicated resource "Hotline for Communications with suppliers" at <http://www.x5.ru/en/Pages/Partners/HotLine.aspx>.