

SUSTAINABLE DEVELOPMENT STRATEGY (ESG)

Progress in 1H 2020

In December 2019, X5's Supervisory Board approved the Company's long-term sustainable development strategy and goals based on four of the UN's Sustainable Development Goals.

Communities



Support local communities through increased social investments and charitable programmes



Planet



Promote responsible consumption and use of resources



Health



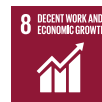
Ensure the availability of a wide selection of quality and healthy products to promote healthy lifestyles



Employees



Ensure decent working conditions and equal opportunities for all of our employees



Our ESG goals run through 2023 and are part of X5 Retail Group's new business strategy for 2021 to 2023. These goals and the programmes and investment required to achieve them are fully integrated into our strategic development programmes. Details of quantitative goals through 2023 will be disclosed this autumn as part of X5's overall 2023 business strategy.

ESG strategy implementation: stage 1 priorities (January–June 2020)

Improving transparency and accountability

JANUARY

In January, X5 empowered its Executive Committee to manage our progress towards sustainable development goals, with progress to be monitored by the Committee on a quarterly basis. We also set up a Sustainable Development Department to coordinate the ESG strategy and projects implementation by all business units. Our single e-mail address for all ESG-related communications is ESG@X5.ru.

MARCH

In March, X5 published its 2019 Annual Report, including a section on sustainable development: www.x5.ru/en/PublishingImages/Pages/Sustainability/X5_SR_2019_ENG.pdf

APRIL

In April, X5 became the first Russian retailer to join the UN Global Compact for sustainable development, an international initiative for businesses in the area of corporate social responsibility and sustainability. This move confirmed our commitment to human rights, labour standards, environmental protection and anti-corruption, putting X5's resolution to achieve its own sustainability goals into the global spotlight.

APRIL

In April, X5 joined forces with WWF Russia and the Ecological Union to hold a training workshop on sustainable development for the Company's employees and other Russian retailers. Participants summarised Russian retailers' sustainability expertise and best practices, including efforts to promote environmentally conscious consumption and engage consumers and local communities in environmentally responsible initiatives.

MAY

In May, X5 presented an ESG databook, which is updated and supplemented on a regular basis: <https://www.x5.ru/en/Pages/Sustainability/Reports.aspx>

JUNE

In June, X5's ESG strategy was integrated with the Company's 2023 business strategy.

JULY

In July, we cascaded our strategic sustainability goals down to business units and introduced detailed ESG dashboards to monitor progress towards these goals at each of our retail chains and business units, while also launching tools to monitor their progress against local ESG targets.

Action towards ESG goals: our projects and progress

1.

X5'S GOAL

Promoting responsible consumption and use of resources

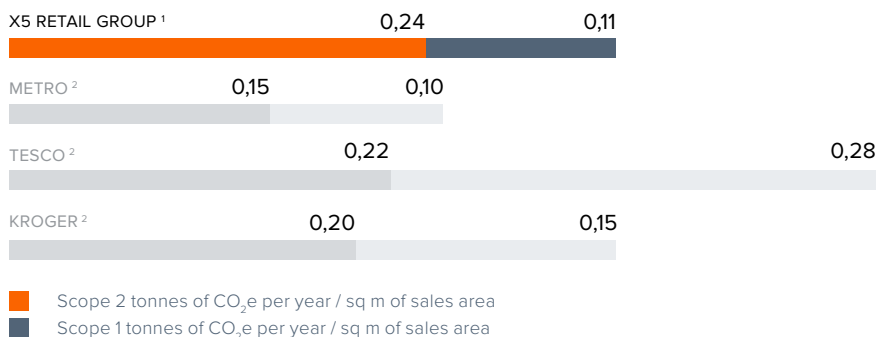
Reducing GHG emissions and energy consumption

X5 calculated its Scope 1 and 2 GHG footprint for 2018 and 2019 in line with the GHG Protocol.

Following an audit of sustainability performance and related ongoing and planned investment projects, the Company identified opportunities for improving operational efficiency and set annual targets for reducing GHG emissions through 2023 to limit our climate impact.

All new outlets and stores slated for refurbishment are now being equipped with the Smart Store system, which deploys special sensors, control devices and software to integrate into existing operating processes, thereby helping to reduce energy consumption, automate equipment control (for refrigerators, refrigerated display cabinets, heating and air conditioning units, lighting and heating solutions for the selling space and utility rooms) and minimise the risk of accidents.

X5 Retail Group is among market leaders by GHG emissions per sq m of sales total area



SPECIFIC EMISSION FACTORS

Prevalence of central heating
 Length of the heating season and average annual temperature
 Low share of energy generated by X5's boiler houses

97 %

of Pyaterochka stores started to provide real-time data on energy consumption.

> 16,000

X5 Retail Group's stores have LED lighting installed.

We discontinued the use of mercury-containing lamps. Moreover, in addition to consuming less energy, we no longer generate class 1 waste, which is extremely hazardous for the environment.

¹ Emissions data have been updated following the publication of the 2019 Annual Report due to the update of the indirect greenhouse gases emission factors. X5 Retail Group calculates Scope 2 emissions using the location-based method and the most up-to-date IEA factors.

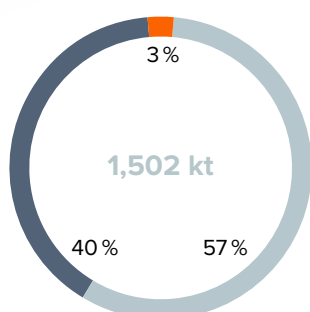
² Emissions breakdown as per the GHG Emissions Calculation, Appendix 3

Improving internal waste management processes

An audit of the existing waste management processes was conducted from 17 February to 19 March 2020 at the Company's facilities in nine Russian regions.



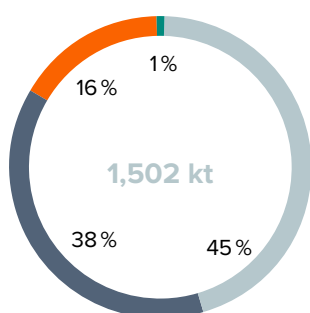
Total waste by type, 2019



■ Recyclable waste
■ Solid municipal waste
■ Saleable food waste

Food waste accounts for 90% of solid municipal waste

Total waste by BU, 2019



■ Perekrestok retail chain
■ Pyaterochka retail chain
■ Pyaterochka DCs
■ Offices

Other BUs account for less 1% of total waste

29 INSPECTED FACILITIES

12	Pyaterochka store
2	Pyaterochka DCs
10	Perekrestok stores
1	Perekrestok DCs
1	Transport BU
1	Perekrestok Kitchen Factory
1	Perekrestok Online
1	Direct Import BU

Inventory programme:

- visits to sales areas, warehouses, utility rooms and container sites
- employee interviews and review of waste management documentation

The audit identified the following strengths of our waste management:

- sites equipped for separate waste accumulation;
- collection and sale of recyclables;
- collection and sale of food waste;
- observance of waste pick-up schedules;
- returnable and reusable containers used in logistics operations.

The Company has already begun to address the areas for improvement identified in relation to the above practices.

X5 Retail Group's total waste calculated as part of the audit was broken down by type and business unit. Our total waste in 2019 amounted to 1502 kt, in line with global benchmarks³.

Measures and programmes have been developed to reduce waste generation and boost recycling.

Annual waste reduction and recycling metrics and targets have been set through 2023 (to be disclosed in October 2020).

An online waste management training programme for X5's employees has been developed to promote and support our efforts in this area.

X5's Waste Minimisation Policy has been put in place along with other waste management by-laws.

³ Peers used in the benchmarking include Tesco, Ahold Delhaize, Kesko, Migros and Carrefour.

Preventing waste generation

Improving the accuracy of inventory planning is an important tool for reducing waste generation. Ways to reduce waste generation include big-data-driven demand modelling, more frequent product deliveries, better adaptation of the product mix to customer needs, smaller minimum order quantities negotiated with suppliers, and strict compliance with temperature

requirements during transportation. In Q2 2020, these efforts enabled the Company to decrease the share of waste to revenue by 30 basis points y-o-y, and we see further room for improvement.

Recycling of waste generated by X5

400_{KT}

solid waste

was sent for recycling

In 1H 2020, 400 kt of solid waste generated as part of our operations (cardboard, paper, containers, pallets and plastic boxes) was sent for recycling, up 35% y-o-y.

In March 2020, the online supermarket Perekrestok.ru launched the collection of plastic delivery bags for further recycling. Customers can return plastic bags used during delivery to the courier.

X5 teamed up with Unilever, Coca-Cola and Henkel to start collecting used plastic and aluminium containers via reverse vending machines installed in our stores. In 1H 2020, X5's retail chains collected over 750 kg of used containers for recycling in exchange for discount coupons from the manufacturers participating in the project.

Pyaterochka and Perekrestok launched an initiative to transfer unsold food and merchandise that become unsaleable before the expiry date for recycling into animal feed. In 2019, we transferred over 13,000 tonnes of unsold products for animal feed. In 1H 2020, our retail chains transferred three times more food products for animal feed, and intend to actively develop this initiative going forward.

Reducing disposable plastic consumption

1100

Pyaterochka stores

introduced shopping baskets made of recycled plastics.

We are implementing a project to promote reusable bags and weighing sacks for fruits and vegetables. Pyaterochka encourages its customers to buy eco-bags made of raw cotton and to use reusable weighing sacks for fruits and vegetables by crediting double bonus points to their loyalty cards. In 1H 2020, X5's retail chains sold more than 2 million reusable bags and 145,000 reusable weighing sacks for fruits and vegetables.

Following a pilot project and based on customer feedback, the Perekrestok retail chain has switched to plastic bags containing 35% recycled materials. Perekrestok updated the requirements for all plastic bags sold at its checkout counters, making a high content of recycled materials compulsory.

All of Pyaterochka's new concept stores—more than 1,100 as at the end of June 2020—started to use shopping baskets made of recycled plastics. From 2020 onwards, all new concept stores will use such baskets. The transition to similar baskets by Perekrestok is in progress. Using recycled plastic in baskets is now a mandatory requirement for manufacturers engaged by all our retail chains.

Developing a responsible supply chain

In April, our top 59 suppliers and 15 direct import suppliers were invited to take part in a survey regarding their sustainable development practices. 31 suppliers (including six direct import suppliers) participated in the survey. The companies surveyed account for 19.5% of X5 Retail Group's total retail sales.

KEY RESULTS

Suppliers ⁴ committed to sustainable practices (% of X5's total procurement turnover):

15 %

Suppliers disclosing **non-financial information** in their reporting

16 %

Suppliers implementing **sustainable packaging** practices

15 %

Suppliers pursuing a sustainable development **strategy and quantitative targets**

14 %

Suppliers assessing their contribution towards **achieving UN SDGs**

11 %

Suppliers having their **products certified**

⁴ Suppliers (excluding direct import suppliers) who participated in the survey.

In April, X5 held an open expert discussion of environmentally friendly packaging solutions with producers of packaging and merchandise, processing companies, NGOs and environmental organisations.

In June, X5 Retail Group developed and published sustainability recommendations for suppliers: www.x5.ru/en/Pages/sustainability/suppliers.aspx based on an analysis of publicly available research, materials from government, public and environmental organisations, a supplier survey and the results of open expert hearings. The recommendations included:

- list types of voluntary environmental and social certifications for different product categories to inform consumers of responsible production practices;
- reflect X5's vision for sustainable packaging, including reusable packaging material, its recycling potential in Russia, use of mono-materials, reusable packaging and lean design;
- specify the most and least preferred raw materials for packaging.

X5 updated its procurement policies in line with its sustainability recommendations for suppliers.

In August, we developed a special training course on the topic of "Sustainable Development for X5's Suppliers", which is publicly available on the Company's website. As part of our targeted educational efforts, more than 50% of X5's 6000 suppliers were made aware of sustainability principles, X5 sustainable development strategy, expectations for joint achievement of goals and X5's sustainability recommendations for suppliers.

X5 Retail Group will keep a record of suppliers that follow its sustainability recommendations via a dedicated survey on its Supplier Portal (the Company's official interface for supplier relations) and will also focus on raising supplier awareness and improving feedback collection in relation to sustainability. Going forward, the Company plans to verify suppliers' ESG performance on a selective basis by reviewing their public reporting and interacting directly with the suppliers.

X5 started incorporating its sustainability recommendations into joint marketing programmes with suppliers. New programmes rely on green marketing principles, and we will share more details about them after their actual launch.

2.

X5'S GOAL

Promoting healthy lifestyles

X5 teamed up with nutritionists and dietitians to develop its own classification of healthy foods.

X5 teamed up with nutritionists and dietitians to develop its own classification of healthy foods.

The classification is based on criteria used to develop programmes promoting healthy lifestyles across our retail chains and to set goals for raising the share of healthy foods in both our private label and branded product mix.

We have also set targets for increasing the share of fresh products at our stores.

Perekrestok has embarked on promoting healthy lifestyles among its customers, with healthy food corners launched as part of a pilot project at eight Moscow-based supermarkets and featuring several hundreds of SKUs classified as healthy food products by X5.

The Good Habit Route and *Healthy Food Basket* customer awareness campaigns have been launched at Perekrestok:

- *Healthy Food Basket* is a set of food products that provides the recommended daily intake of calories, proteins, fats and carbohydrates throughout a month for an adult.
- Good Habit Routes are highlighted with special navigation marks in the shopping space, and are now available in Perekrestok stores to help customers pick products that support a healthy and balanced diet and motivate them towards responsible consumption and rational use of resources.

Perekrestok and Danone launched an *interactive online course* on responsible consumption developed jointly with experts from UNITAR (United Nations Institute for Training and Research).

3.

X5'S GOAL

Ensuring decent working conditions and equal opportunities for all of our employees

In May, X5 Retail Group disclosed its gender pay gap for the first time. The average for 2019 was 0.87, which is a strong result compared to international benchmarks⁵

X5 launched an effort to make sure that 100% of its employees are briefed on sustainable development principles, along with an online training course on sustainable development for all existing and new employees at our stores and offices.

We are continuing to run programmes in the following areas:

- developing the corporate culture and values, including diversity and inclusion;
- boosting employee engagement;
- developing feedback channels, including eNPS and CSI.

In 2020, X5 introduced a system of grades and bands to make its position and competency requirements more transparent and to improve incentive practices.

We adjusted remuneration programmes for in-store staff to improve transparency around the variable component of their remuneration and boost employee satisfaction levels.

We changed the way we arrange and design staff break areas. New concept Pyaterochka and Perekrestok stores feature more spacious, better equipped, more functional and comfortable staff areas.

During the COVID-19 outbreak, the Company has arranged for 95% of office employees to work remotely starting from March 2020.

X5 launched a Home Office project enabling employees to mix office and remote work. It seeks to offer more flexible work arrangements to employees to improve their work-life balance and satisfaction levels.

0.87

The average pay gap by gender in 2019

⁵ The following sources were used to identify the benchmarks:
data.oecd.org/earnwage/gender-wage-gap.htm,
<https://www.retailgazette.co.uk/blog/2020/01/gender-pay-gap-of-17-in-the-retail-industry/>,
<https://www.pwc.co.uk/services/human-resource-services/gender-pay/spotlight-on-large-retailers.html>

X5'S GOAL**Support for local communities**

Assistance for missing people

X5 Retail Group partnered with the Centre to Search for Missing People and the Liza Alert search-and-rescue team, which supports lost and disoriented people, to help 707 people return home since the project launch in late March to late June 2020.

Food aid

X5 and Foodbank Rus gathered nearly 145 tonnes of food (over 24,000 food sets) and donated them to people in need as part of the Basket of Kindness project.

COVID-19:

In March, we launched an unscheduled online Basket of Kindness campaign to deliver food to elderly residents of Moscow and St Petersburg as well as the Moscow, Vladimir and Lipetsk regions. Since the end of March, X5 and Foodbank Rus collected 8,600 food sets for seniors thanks to online food donations.

In April, we also handed over 3,500 food parcels to doctors of the Sklifosovsky Research Institute of Emergency Care and their families as part of the Basket of Kindness project. X5 incurred all food and infrastructure costs in the project, while Foodbank Rus' volunteers packed and delivered the food parcels to the hospital.

In April, Pyaterochka started delivering free sets of tea, coffee and confectionery products to nine Moscow-based laboratories engaged in research into the novel coronavirus as well as to about 70 hospitals and labs outside Moscow, with a total of 17 tonnes of tea sets delivered since then.

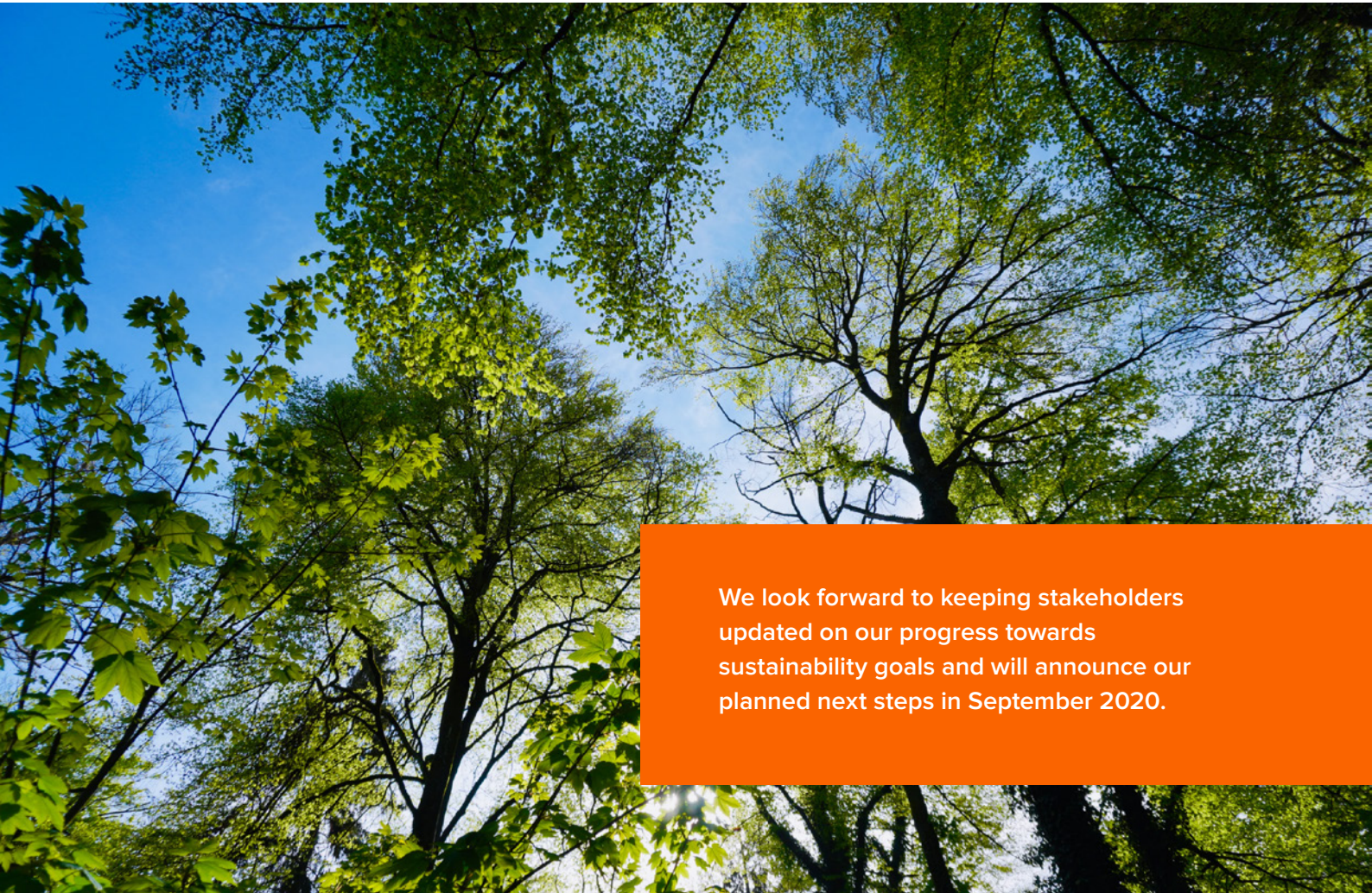
In April, Perekrestok's Smart Kitchen started donating ready-to-eat meals to doctors at five Moscow hospitals, with a total of 31,760 meals donated to date.

Karusel hypermarkets across our geographies launched a service to offer free lunches to ambulance crews on a daily basis.

Perekrestok.ru launched a free product delivery service for pensioners.

Perekrestok launched a free dog walking service for the elderly.

Pyaterochka teamed up with the All-Russia People's Front to deliver food and medicines to pensioners for free.



We look forward to keeping stakeholders updated on our progress towards sustainability goals and will announce our planned next steps in September 2020.