MANAGEMENT BOARD REMUNERATION POLICY 2020

Introduction

In accordance with the implementation of the amended European Shareholder Rights Directive in the Netherlands, the Supervisory Board, based on a recommendation of the Nomination and Remuneration Committee, has prepared the remuneration policy of the Management Board for adoption by the 2020 Annual General Meeting of Shareholders (AGM). Subject to adoption by the AGM, the remuneration policy will take (retro-active) effect from January 1, 2020.

The Supervisory Board resolved that the remuneration policy for the Management Board shall in principle also apply to members of the Executive Board. In view of the relative size and composition of both boards, this Policy refers to the Executive Board unless specific provisions apply to members of the Management Board only, which will be clearly indicated. While developing the remuneration policy, the Nomination and Remuneration Committee conducted scenario analyses to determine the risks to which variable remuneration may expose the Company.

Objectives

The remuneration policy for members of the Executive Board is aligned with the Company's strategy and supports the long-term development of the Company, while aiming to be effective, transparent and simple. The objective of the remuneration policy is twofold:

- to create a remuneration structure that supports a healthy corporate culture and allows the Company to attract, reward and retain the best qualified talent to lead the Company towards its strategic objectives;
- to provide for a balanced remuneration package that is focused on achieving sustainable financial results, aligned with the long-term strategy of the Company and shall foster alignment of interests of management with shareholders and other stakeholders including customers, employees and wider society.

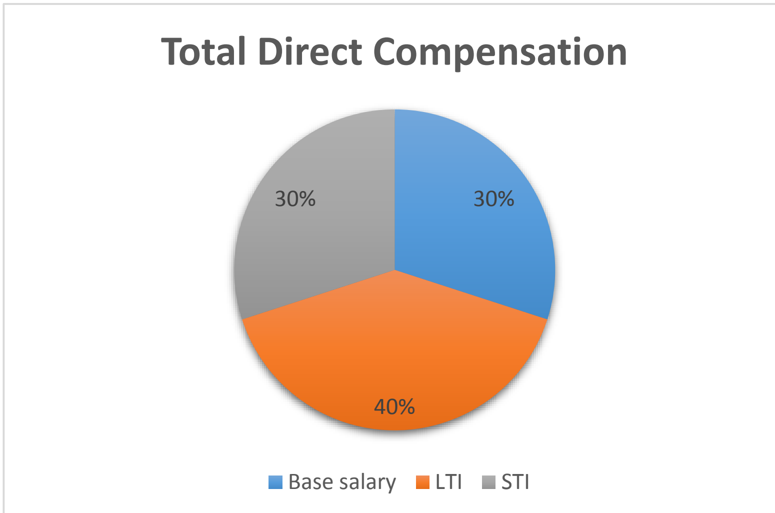
As such the remuneration policy supports the long-term development of the Company, while aiming to fulfil all stakeholders' requirements.

The support of our shareholders and stakeholders is important to us and has been taken into account when formulating the remuneration policy. In preparing this remuneration policy, the Supervisory Board has considered the external environment in which the Company operates, the relevant statutory provisions and provisions of the Dutch corporate governance code, competitive market practice as well as the guidance issued by organizations representing institutional shareholders and input from the Company's major shareholders.

Elements of remuneration

The remuneration provided to Executive Board members consists of the following fixed and variable components (the 'Total Direct Compensation'): a base salary, an annual cash incentive (STI) and a long-term cash incentive (LTI). Both STI and LTI are built around performance measures, both financial and non-financial, to support the Company's strategic objective to achieve long-term value creation through sustainable leadership in customer, employee and shareholder recognition.

In line with our overall remuneration philosophy, the Executive Board's Total Direct Compensation is equally balanced between the fixed and annual variable remuneration components, and more heavily weighted on the LTI to strengthen the focus on long-term goals. The ratio between fixed and variable pay components for members of the Executive Board is as follows, in case of on-target performance:



In addition to the Total Direct Compensation, members of the Executive Board are entitled to other benefits as described below under "Other remuneration components" and "Contractual arrangements".

Benchmarking
The basic components of the Total Direct Compensation provided to Executive Board members is benchmarked against the labour market peer group every year. As a company with operations mainly in Russia, the reference group created for the benchmarking is composed of Russian companies equivalent in terms of size of business and complexity of operations. To accommodate potential changes in the labour market peer group due to de-listings, mergers or other extraordinary circumstances, the Supervisory Board may exercise discretion to substitute comparable companies within the peer group.

While the basic components of the Total Direct Compensation provided to Executive Board members is benchmarked against the labour market peer group, the compensation of the operational staff in stores and warehouses is benchmarked locally to achieve a fair compensation throughout all layers of the Company and its affiliated enterprise taking into account the geographic diversity across the seven federal districts. The Supervisory Board's Nomination and Remuneration Committee closely monitors developments in the regional and local labour markets and takes these developments into account when making recommendations on Executive Board compensation to the Supervisory Board for consideration and approval. While developing the remuneration policy, the Nomination and Remuneration Committee carries out scenario analyses to determine the risks to which variable remuneration may expose the Company.

Although external market data provide useful context, it is ultimately the responsibility of the Supervisory Board to determine remuneration packages at an appropriate level that reflect the skills, level of responsibility and performance of each individual. As we aim to recruit and retain the most qualified talent available, the target Total Direct Compensation level is set between the 50^{th} and the 75^{th} percentile.

Internal pay ratio

As is commonly understood, pay ratios are specific to the Company's industry, geographical footprint and organisational model. As a major food retail company, the relatively small number of executive staff vs. operational staff in stores and warehouses across seven federal districts in Russia, adds to the variety of pay within the Company and substantially differentiates the average employee compensation with compensation levels of Executive Board members.

The internal pay ratio is calculated by dividing either the individual or average remuneration of the Management Board members by the average remuneration of all X5 employees. The average remuneration of all employees is calculated as the total labour costs divided by the number of employees on an FTE basis.

Base salary

The base salary of the CEO and the other members of the Management Board is determined by the Supervisory Board. Base salaries of Executive Board members -not being a member of the Management Board- are determined by the CEO within salary ranges reviewed and approved by the Supervisory Board on an annual basis. Within the approved salary ranges, base salaries for the Executive Board members -not being a member of the Management Board- are fixed by the CEO. Base salaries of Executive Board members are reviewed not more than once every three years and reflect the level of responsibility, skills, experience and performance of each executive. Base salaries may exceed the maximum point of a salary range in specific circumstances which may include internal promotions, material growth within the role, or significant changes to the scope and responsibility of a role. Any such salary increase is subject to Supervisory Board approval.

Short-term incentive (STI)

The short-term incentive is an annual cash bonus that ensures that Executive Board members are focused on the delivery of performance targets over the financial year. It drives behaviour and reflects the key priorities for the year.

Performance measures are aligned with the Company's strategic objective to deliver sustainable value to our shareholders and other stakeholders, and include both financial criteria as well as non-financial and/or individual measures. At the beginning of each financial year the Supervisory Board sets revenue and profitability thresholds as key conditions for STI payout, and determines the performance measures and their relative weight, and the targets to be achieved for each performance measure, based on X5's business priorities for that year. For each measure, performance ranges are set, i.e. the value below which no payout will be made (the threshold), the on-target value and the maximum payout level. Financial performance measures comprise components related to the Company's operational performance, such as sales growth and return on investment (ROI). Non-financial performance measures are a mix of quantitative and qualitative measures that reflect and support the Company's strategic goals, and include staff turnover as measure to stay focused on staff engagement, as well as net promotor score (NPS) as qualitative strategic imperative to achieve leadership in customer recognition. Both financial and non-financial performance measures contribute to the Company's success in the short term, while also securing the long-term objectives of the Company.

The target payout as a percentage of base salary is 100% for members of the Executive Board and 60% for Management Board members based in the Netherlands, contingent on the targets being fully achieved. In the event of above-target performance, the maximum payout level is 140% of target payout per quantitative target (financial and non-financial), and 120% of target payout per qualitative target. The total STI payout may be adjusted up- or downwards up to 20% of target payout by discretion of the Supervisory Board.

The STI is paid out in March each year for performance relating to the previous financial year.

Long-term incentive (LTI)
The LTI is a cash incentive programme over a three-year period from 1 January 2018 until 31 December 2020, with an extension component of deferred, conditional payouts in order to maintain the focus on long-term goals and to provide for an effective retention mechanism. It applies to members of the Management Board if so decided by the Supervisory Board. In comparison to the previous LTI programme (i) it reflects enhanced focus on sustainability and strategic objectives that contribute to long-term value creation for the Company, (ii) it is designed for a wider group of participants within the Company and (iii) aims to create greater balance between short- and long-term compensation of the programme participants.

Targets under the LTI are structured to align the long-term interests of shareholders and management, with a focus on maintaining leadership in terms of revenue and enterprise value multiple relative to competition. Additionally, the LTI includes thresholds relating to (i) the EBITDA margin to ensure that profitability is not sacrificed and (ii) the net debt/EBITDA ratio to retain focus on prudent financial and balance sheet management. Under the programme, 50% of the total award is paid in 2021 subject to maintaining achieved targets until the end of 2020, while the other 50% is deferred to 2022 with a profitability threshold as a condition for deferred payout. This creates a focus on long-term goals throughout the programme and provides an effective mechanism for motivating and retaining members of management who are critical to the ongoing success of the Company.

The size of each individual cash award is based on the participant's annual base salary and LTI scale reflecting his/her role and position level, contribution to meeting the LTI targets at both individual and team level, with a maximum of 133% per year of the participant's base salary during the three-year programme. The total available fund for all payouts under the LTI programme is capped at 5% of average EBITDA during the three-year period of the programme.

Other remuneration components
Members of the Executive Board may be offered a number of other arrangements, such as an expense allowance, medical insurance, accident insurance and life insurance, in accordance with Company policy. The Company's policy does not allow personal loans and guarantees to members of the Executive Board, nor does the Company provide pension arrangements for members of the Executive Board.

Contractual arrangements
Members of the Management Board are engaged on the basis of a Management Services Agreement with a four-year term, to be extended upon reappointment by the General Meeting of Shareholders. The CEO, as Russia-based member of the Management Board, also has a contract of employment with an operational subsidiary in Russia. The fixed and variable salary components stipulated in each contract reflect the relevant responsibilities of each member of the Management Board in the Netherlands and in Russia.

The severance payment is generally limited to a six month's base salary, however, the Supervisory Board may increase this to a maximum of one year's base salary if required under individual circumstances. For the CEO and other members of the Executive Board the severance pay is structured as a non-competition reward payable in quarterly instalments following contract termination, subject to compliance with non-competition conditions. The non-competition period for the CEO is twelve months, and six months for other Executive Board members. No severance pay will be awarded if the agreement is terminated at the initiative of the Management or Executive Board member, or in the event of seriously culpable or negligent behaviour on his/her part.

Agreements with members of the Management Board may be terminated by either party with a notice period of two months and, in case of the CEO, three months.

Legacy arrangements
As disclosed when Mr. Shekhterman took office in 2015, he shall be entitled to a minimum annual compensation package of USD 4,000,000. Should the minimum annual compensation exceed the total annual remuneration based on fixed and variable components, Mr. Shekhterman shall be entitled to the difference upon completion of his full term as CEO. Furthermore, Mr. Shekhterman is eligible to a termination compensation of up to USD 5,000,000 at the discretion of the Supervisory Board. Upon compliance with the non-competition obligations described above under 'Contractual arrangements', Mr. Shekhterman shall be entitled to an amount equal to the net annual base salary under his contract. In case of breach of the non-competition obligations, the contract provides for a penalty in the amount of two annual base salaries on a net basis, and repayment of the termination compensation.

Claw-back
The Supervisory Board may recover from the Management Board members all or part of a paid bonus derived from STI or LTI if such bonus is based on incorrect information regarding the targets or the conditions of the bonus. Furthermore, the Supervisory Board has the discretionary authority to adjust an unpaid bonus to an appropriate amount if payment of the bonus is considered unreasonable or unfair.

Insurance and indemnity arrangements
Members of the Management Board as well as certain senior management members, are insured under X5's Directors and Officers Insurance Policy.

Although the insurance policy provides broad coverage, X5's directors and officers may incur uninsured liabilities. Under the Company's Articles of Association, members of the Management Board are indemnified by the Company against any claims arising out of or in connection with the general performance of their duties, provided that such claim is not attributable to gross negligence, wilful misconduct or intentional misrepresentation by the director or officer in question.

Adoption
Adoption of the remuneration policy by the General Meeting of Shareholders, upon proposal by the Supervisory Board, takes place at every change and in any case at least every four years. The Nomination and Remuneration Committee is responsible for the development of the remuneration policy and making a proposal to the Supervisory Board.

Amendments
This remuneration policy may only be amended by the General Meeting of Shareholders pursuant to a proposal of the Supervisory Board to which the Nomination and Remuneration Committee has made a proposal. All revisions of the remuneration policy shall be accompanied by a description and explanation of all significant changes and the decision making process followed for its determination, review and implementation. Furthermore, it is also explained how it takes into account the votes and views of shareholders and other stakeholder on the remuneration policy and reports since the most recent vote on the remuneration policy by the General Meeting of Shareholders.

When the General Meeting of Shareholders does not approve the proposed amendments to the remuneration policy, the Company shall continue to remunerate in accordance with the existing remuneration policy and shall submit a revised policy for approval at the following General Meeting of Shareholders.

Deviations
In exceptional circumstances only, the Company, acting through the Supervisory Board upon recommendation of the Nomination and Remuneration Committee, may decide temporarily to deviate from the provisions of this Remuneration Policy regarding any component of the Total

Direct Compensation and other contractual arrangements. A derogation for exceptional circumstances only covers situations in which the derogation from the Remuneration Policy is necessary to serve the long-term interests and sustainability of the Company as a whole or to assure its viability. Such exceptional circumstances include, but are not limited to, situations such as the urgently required appointment of a Managing Director, or the buy-out of awards forfeited as a result of joining the Company.