

**Changing
faster**

2019

SUSTAINABILITY REPORT

X5.RU



Contents

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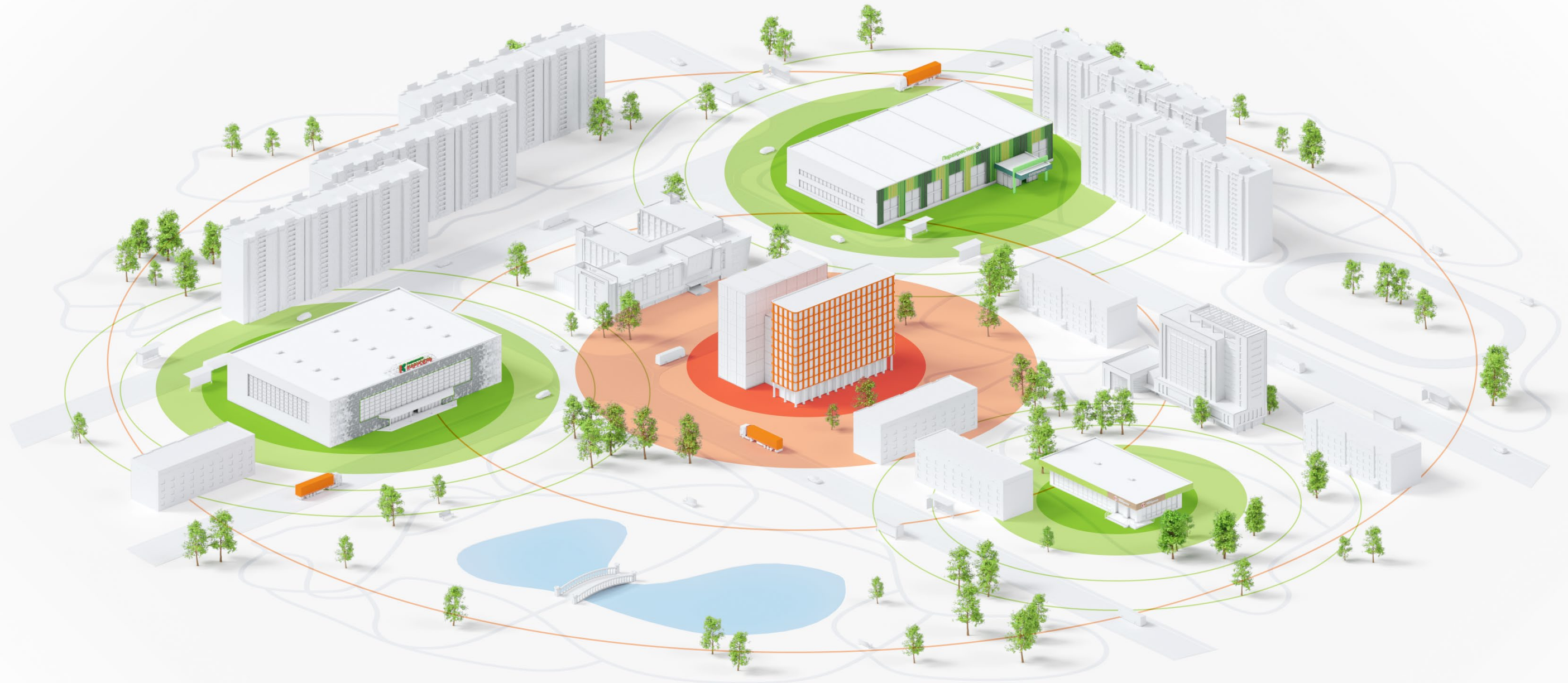
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Sustainable development

Sustainable development at X5 includes a wide range of activities, from supporting the health and well-being of our customers to providing a safe, fair and comfortable workplace, as well as contributing to the communities where we operate and doing our part to minimise our environmental footprint.



Our sustainability goals

Since adopting our new sustainability strategy in December 2019, we have been working to establish specific targets and to integrate our sustainability goals into our overall business strategy. The following section of this report reflects X5’s key sustainable development goals, which were approved by the Supervisory Board in December 2019. We have also created a separate section on our corporate website dedicated to our sustainable development strategy in order to publicly demonstrate our commitment to [these goals](#).

■ Primary Goals
□ Secondary Goals



We are currently in the process of determining the indicators that we will employ to set targets and measure progress in achieving our sustainability goals.

UN SDGs	Key goals for X5	Next steps
2 ZERO HUNGER	Support local communities by expanding social investments and charity programmes.	
3 GOOD HEALTH AND WELL-BEING	- Facilitate accessibility (across geography of operations) of a wide assortment of high-quality and healthy foods. - Support healthy lifestyles. - Monitor the production of the food (and non-food) goods we sell “from farm to fork” for quality and safety.	
8 DECENT WORK AND ECONOMIC GROWTH 5 GENDER EQUALITY 10 REDUCED INEQUALITIES	- Ensure that we offer decent working conditions and equal opportunities for all of our employees. - Monitor the production of the food (and non-food) we sell “from farm to fork” for social impact. - Further improve the productivity of every employee.	
12 RESPONSIBLE CONSUMPTION AND PRODUCTION 7 AFFORDABLE AND CLEAN ENERGY 11 SUSTAINABLE CITIES AND COMMUNITIES 13 CLIMATE ACTION 14 LIFE BELOW WATER 15 LIFE ON LAND	- Reduce energy consumption. - Develop sustainable packaging offerings. - Monitor the production of the food (and non-food) goods we sell “from farm to fork” for environmental impact. - Cut volumes of waste sent to landfills. - Support responsible consumption.	During 2020, we will develop programmes that will be underpinned by performance metrics and KPIs in each of these priority areas, as well as policies and performance standards that will be further integrated into X5’s business processes. Further details will be shared with all relevant stakeholders over the course of 2020, and presented in the annual report for 2020.

Stakeholder engagement

We interact with a wide range of stakeholders as part of our day-to-day business, and we believe that maintaining a regular dialogue with them will enable us to create value and grow our business in a sustainable and profitable way. Among our key stakeholders are customers, employees, shareholders and investors, suppliers, local communities, as well as regulators and government officials. Below is a description of our key interactions with each group.

STAKEHOLDERS	Customers	Employees	Shareholders / investors	Suppliers	Society and local communities	Government / regulators
WHY WE INTERACT	• To raise customer awareness of the value propositions of our retail formats • To demonstrate how we are different from other grocery retailers • To encourage loyalty to X5 brands and increase the share of wallet by offering a greater selection of what customers need and improving their in-store experience • To encourage customer feedback that may help us improve the business • To engage directly with customers to answer their questions • To understand how demand is changing and what new trends are emerging in order to adapt our business • To promote responsible consumption through education of customers about healthy lifestyles and ways to be more environmentally friendly • To provide tools and infrastructure to promote more sustainable shopping practices, such as reusable and recycled bags, plastic bag collection and reverse vending machines for recycling	• To support professional growth and well-being of employees • To ensure that employees share our corporate culture and help us achieve our strategic goals • To support our efforts to further improve occupational health and safety • To encourage employee engagement in our sustainability initiatives • To encourage employees to contribute ideas that will further improve our operations • To retain and develop a workforce of skilled and motivated employees • To uphold our reputation as an attractive employer for current and potential employees • To educate employees about the principles of sustainable development and specifically about X5's sustainable development strategy and our plans for integrating sustainable development into our day-to-day business	• To inform the investment community about X5, our strategy, financial and operating performance, sustainability practices and other significant events • To explain the growing, sustainable value of the enterprise • To listen to feedback that may help us further improve the business • To secure investors' support for X5's capital markets activities • To support growth in market capitalisation over the long term	• To ensure the reliable and on-time supply of high-quality goods • To enable local producers to sell goods at X5 stores across the regions where we operate • To provide customers with the assortment they want, when they want it • To ensure the health and safety of the products we sell • To reduce our environmental footprint by exploring sustainable packaging options and collaborating with responsible brands • To maximise the efficiency of our supply chain	• To contribute to the development and well-being of local communities, where we are both employers and providers of essential retail services • To establish mutual understanding of local communities' priorities and concerns • To support the health and well-being of communities where we are present • To maintain the strong reputation of our stores and brands • To inform media at all levels about our achievements and performance • To maintain constructive relationships with local authorities • To stay informed about local policies or regulatory changes that could impact our business	• To maintain a constructive dialogue regarding regulations and legislation that may impact our business • To ensure that company and industry priorities are known and understood • To explain the ways in which X5 is contributing to Russia's social and economic development and building value for stakeholders • To stay informed about current and upcoming regulatory or legislative initiatives that may impact our business
HOW WE INTERACT	• Through a customer hotline • Via social media and messenger platforms • By using big data analytics of customer behaviour to understand how we can meet our customers' needs in the most efficient and reliable way • By measuring customer satisfaction by conducting a country-wide net promoter score (NPS) assessment	• By offering competitive, fair and transparent salaries and motivation schemes, as well as meaningful career opportunities, to X5 Retail Group employees • By ensuring that human rights are fully respected and that employees are provided with all the freedoms they are entitled to • By implementing strict occupational health and safety policies and keeping employees informed and educated about workplace health and safety requirements • By providing in-house and external training and development programmes • By supporting employees in need due to long-term illness or accidents, bereavement or loss of property • By recognising significant contributions to the Company's performance • By creating opportunities to engage with our corporate social responsibility agenda and to make a positive social impact	• By providing information about our strategic performance and how we are adapting to address current and expected market trends • By implementing transparency and disclosure, as well as corporate governance systems that are in line with global best practice • By ensuring access to information about the Company via our investor website in the form of annual reports, financial statements, press releases and presentations • Via roadshows • Via investor conferences • Via conference calls • Via group meetings with analysts and investors	• By developing partnerships for promotional and other sales activities • By upholding transparent relationships based on trust and respect • By facilitating the work of local producers with X5 in order to maintain an assortment of locally produced goods across our formats • By holding training events to help suppliers work efficiently with X5's logistics infrastructure • By using our extensive transport and logistics infrastructure to support both large federal and smaller local suppliers • By conducting annual X5 Dialogue breakfasts with top-30 and top-100 suppliers to discuss current trends, share X5's vision and strategy as well as programmes and instruments to develop collaborative relationships with suppliers • By analysing suppliers' feedback based on an annual supplier survey conducted by Advantage in order to improve collaboration with suppliers	• By developing and supporting charity and social initiatives such as the Basket of Kindness food bank and Liza Alert search-and-rescue operations • By supporting priority initiatives for local communities, ranging from working with local suppliers to supporting events like tree plantings, community green-up days, Victory Day celebrations and others • By adhering to environmental regulations and reporting about our environmental performance, including measures to reduce emissions, consumption and waste generated by our activities • By maintaining regular dialogues with local authorities and community leaders • By supporting an electronic social cards programme, which enables low-income households to get financial aid from the Moscow City Government using electronic cards, which can be used for purchases at Pyaterochka, Perekrestok and Karusel stores	• By participating in industry associations that represent the view of retailers with regard to regulation and legislation • By inviting relevant government officials to key events such as DC openings that illustrate how X5 is creating jobs and supporting local suppliers • By participating in working groups on issues relevant to X5 Retail Group at the federal and regional levels • By piloting and testing planned changes to government-ordered innovative technologies (labelling for various categories of goods, electronic document exchange, electronic signatures) • By maintaining an open dialogue with the AKORT industry association and providing X5's position on matters of importance to retailers, such as environmental and sanitary legislation, charity, etc.
2019 PERFORMANCE HIGHLIGHTS	• Over 5 billion customer visits in 2019 • Pyaterochka and Perekrestok NPS scores improved year-on-year to 1.2 and 21, respectively, based on responses from around 112,000 customers in 48 cities • Expanded omnichannel initiatives like Perekrestok.ru and in-store parcel lockers for customers to collect online purchases, making it more convenient for customers to shop with X5 • Enhanced loyalty programmes with personalised offers that leverage big data analytics • Ongoing adaptation of store concepts and format CVPs to meet customer demand • Introduced new big data analytics products to automate assortment and pricing, enabling us to meet demand more accurately and efficiently, and share the benefits with our customers	• Invested around RUB 200 million in professional training and development • Conducted over 60 employee engagement events, including sports, informational events and entertainment, with total participation exceeding 669,000 • Occupational health and safety policies and rules remained a core area of focus • Implemented diversity and human rights policies • Improved design and comfort of break areas for in-store staff as part of updated store concepts for Pyaterochka and Perekrestok • Ongoing digital transformation of our business includes a state-of-the-art corporate intranet portal and Personal Account mobile app for employees to make it easier to access key employment information and documents	• Adhered to dividend policy adopted in 2017 • Implemented award-winning investor relations practice • Conducted 536 meetings with investors and analysts, including 224 in 1-on-1 format • Held six roadshows (including two with management) and participated in no fewer than 15 investor conferences • Held Capital Markets Day in London • Published 39 press releases via a regulatory information service • Significantly enhanced direct communications with investors following the introduction of MIFID II; held our first virtual roadshow	• Added 1,245 new suppliers in 71 regions • Developed and expanded exclusive private-label lines with selected suppliers • Conducted 45 events in 36 regions for more than 1,500 local suppliers • Maintained a top-three ranking among retailers according to an annual survey of suppliers regarding their interactions with retailers, conducted by Advantage	• Created 29,046 new jobs in 65 Russian regions through store openings • Paid over RUB 72.1 billion in local, regional and federal taxes • Provided convenient, modern and reliable food retail services to people in over 3,100 cities and towns in Russia (over 5.1 billion checks) • Donations to initiatives to help those in need: RUB 70 million in 2019 • Number of people receiving support through X5 social initiatives: 59,000 people in 2019 • Pensioners who shopped at Pyaterochka, Perekrestok and Karusel stores during non-peak hours saved over RUB 12 billion during 2019 • X5 Retail Group supports shoppers with children and parents-to-be by offering special discounts and additional points for purchases. In 2019, programmes for families with children helped customers save almost RUB 600 million	• X5 proposals were taken into account in new regulations and legislation concerning trade, veterinary and sanitary requirements, and digital innovations • Reasonable timelines for the introduction of mandatory labelling of tobacco products, footwear and certain other goods. Pilots for the labelling of dairy products and drinking water were extended • X5 proposals were taken into account in new regulatory acts concerning the sale of excisable goods and real estate

Please see more information on employee matters in the "People review" section on pages 190–203

Please see more information on shareholder matters in the "Corporate governance" section on pages 210–253

Please see more information on supplier-related matters in the "Compliance and ethics" section on pages 168–171, in the "Product safety and quality" section on pages 172–179

Please see more information on social matters in the "Local communities" section on pages 204–209

Compliance and ethics

When conducting business, X5 Retail Group is committed to a corporate culture of shared values based on ethical standards, mutual respect and compliance with applicable laws and regulations. These values and principles are reflected in our Code of Business Conduct and Ethics (the “Code”), underlying policies and procedures, and through learning and training programmes.

Key policies



Applying our values and ethical principles enables our employees to make good choices and protect our relationship with colleagues, customers and communities. The Code of Business Conduct and Ethics and its underlying policies intend to help each employee comply with relevant legal and regulatory obligations and make ethical choices as it relates to our business. All policies are posted on our website and/or intranet, enabling all X5 employees and business partners to familiarise themselves with them. The Code and its underlying policies are reviewed and updated on a periodic basis in response to changes in legislation and Company processes.

Policy highlights

Code of Business Conduct and Ethics

The Code of Business Conduct and Ethics and its underlying policies describe the standards of conduct that support our commitment to integrity, and how our employees are expected to treat each other, our suppliers and our customers, outlining a set of basic principles that guide our business practices.

The Code covers areas such as fair competition, fighting bribery and corruption, care for the environment, protection of personal data and company assets, avoiding conflicts of interest, equal opportunities for employees and safe working conditions, and how to deal with customers, suppliers and competitors. Furthermore, the Code includes a whistleblower policy describing the process for reporting violations of the Code. The provisions of the Code apply to all employees regardless of their position or function; they are made familiar with the provisions of the Code through periodic, interactive learning programmes.

Practical guidance on specific topics outlined in the Code is given in additional policies described below.

Code of Interaction with Business Partners

As an industry leader, we are aware of our responsibility to the government, society, our shareholders and business partners, and we aim to fully comply with legal and ethical standards, as well as best corporate practices, in order to serve as an example for other market participants. The Code of Interaction with Business Partners contains provisions regarding compliance with trade and competition laws, anti-corruption and fraud legislation, legislation on the quality of products and services, legislation in the field of environmental protection, laws in the field of labour relations and labour protection. This policy also covers prevention of discrimination, transparency in interaction with business partners, communication standards, information protection, prevention of conflicts of interest, etc. Employees and business partners are encouraged to adhere to these provisions in their work for and with X5. Violations of the Code of Interaction with Business Partners are handled by X5's dedicated Conciliation Commission (see below).

Policy on Countering Misconduct Including Fraud and Corruption

X5 and its brands are committed to conducting business in an ethically responsible manner and complying with all applicable laws and regulations. This commitment specifically includes compliance with laws relating to anti-corruption and bribery. In addition to the Code of Business Conduct and Ethics, X5's Policy on Countering Misconduct Including Fraud and Corruption (the "Anti-Corruption Policy") prohibits any form of corruption or bribery, including facilitation payments. It aims to create a culture of honesty and zero tolerance for illegal behaviour among staff, and also to eliminate any risks of involving the Company in corrupt activities. Our anti-corruption system includes a set of mechanisms, procedures and tools aimed at preventing, uncovering, investigating and responding to all possible cases of misconduct. Furthermore, it establishes roles and responsibilities for departments and management bodies within the anti-corruption system. Our aim is to conduct business only with those partners that share X5's principles of zero tolerance for corruption and fraud, and relevant provisions are included in the agreements with our suppliers and other business partners.

Declaration on Human Rights Protection

X5's Declaration on Human Rights Protection defines principles and rules in respect of compliance with, and promotion of, high international standards for the protection of human rights at every level of the Company's operations. These principles and rules are based on the recognition of every human being's dignity, and the freedom and equality of all humans, including:

- Prohibition of discrimination and forced labour;
- Prohibition of harassment;
- Respect for cultural diversity and values;
- Respect for the right to freedom of assembly and association;
- Occupational health and safety.

As a complement to the Code of Business Conduct and Ethics, the Declaration on Human Rights Protection is a binding document for all X5 employees and business partners.

Policy on Processing Personal Data

In accordance with legal requirements of the Russian Federation on personal data, we have a Policy on Processing Personal Data in place that applies to all processes involving the collection, storage, retrieval and transfer of personal data within the Company.

Inside Information and Dealing Code

The Inside Information and Dealing Code reflects the provisions of the EU Market Abuse Regulation, which entered into force in 2016. Its purpose is to ensure that X5 employees do not abuse, and do not place themselves under suspicion of abusing, inside information and comply with their obligations under the applicable rules on inside information and securities trading.

Compliance Policy

In order to ensure compliance with the requirements of regulators, stakeholders, established business practices, voluntarily adopted standards and rules of business conduct and ethics, X5 has adopted a Compliance Policy in accordance with ISO 19600:2014 (Compliance Management Systems). Compliance risks are assessed and reassessed on an ongoing basis.

Compliance and ethics systems



Ethics Committee

The Ethics Committee is chaired by the CEO and includes the General Counsel, the Head of Corporate Security, the Director for Business Support and the Director of HR and Organisational Development. The Ethics Committee is responsible for:

- Objective review of (alleged) violations of the Code of Business Conduct and Ethics, the Declaration on Human Rights and the Anti-Corruption Policy;
- Resolving conflicts of interest;
- Approving anti-fraud and corruption measures;
- Adopting further rules and policies in the areas of business conduct and ethics.

While the responsibility for investigating (alleged) violations of the Code of Business Conduct and Ethics is generally assigned to the Security Division, the specific responsibility for handling (alleged) violations in the areas of human rights, labour rights and occupational health and safety is assigned to the Directorate of Human Resources and Organisational Development.

Reporting violations and whistle-blowing policy

Employees are encouraged and obliged to report any actual or suspected violations of the Code of Business Conduct and Ethics and the Declaration on Human Rights Protection. Various communication channels are available to employees for reporting violations: reports can be made through the ethics hotline or by e-mail, as well as through Company websites and intranet portals. The Compliance Department is responsible for review and follow-up of such reports in accordance with the internal procedure for considering complaints. Reports via the ethics hotline can be made anonymously and without fear of retaliation, even in cases when it cannot be confirmed that a violation has taken place. The Company guarantees confidentiality of any report made.

All reports of corruption or human rights violations are subject to an internal investigation. When conducting internal reviews, all collected information is treated equally and analysed. If necessary, following a thorough investigation, the Company may take disciplinary and other measures against the responsible employees, ultimately leading to termination of employment. In accordance with X5's remuneration policies, the application of disciplinary measures may affect the employee's variable remuneration components, which increases the effectiveness of the Code at all levels of operation within X5.

In 2019, our whistle-blowing lines received 7,124 reports, over 65% of which were related to routine HR issues. Approximately 7% of the reports were made anonymously. In 2019, the Company automated the ethics hotline, which enabled us to respond more quickly to reports regarding potential violations. On average, reports were investigated and resolved within 20 days. In 2019, there were no substantiated reports of significant financial reporting, accounting, fraud or ethical violations.

In addition to the whistle-blowing channels for employees, the Company also operates a reporting channel for business partners and other third parties. Violations of the Code of Interaction with Business Partners are handled by X5's Conciliation Commission, which serves as a corporate arbitrator in disputes with business partners. The Commission is established in accordance with the Code of Good Practice, which regulates interaction between retailers and suppliers. The Conciliation Commission's tasks furthermore include improving the efficiency of contractual work done for the Company, creating a platform for direct dialogue with suppliers and other business partners, and identifying and preventing violations in working with contractors. Violations can be reported via the feedback form posted on X5's website.



Conflicts of interest

Our internal procedure for declaring, monitoring and resolving conflicts of interest enables managers and employees to disclose situations involving any potential conflict of interest, and establishes procedures for the purpose of resolving conflicts of interest. The Compliance Department is responsible for the proper functioning of the reporting procedure and for dealing with reported conflicts of interest.

During 2019, employees were required to redeclare conflicts of interest through a renewed digital reporting channel.

Training

As stated above, new employees are required to familiarise themselves with the Code of Business Conduct and Ethics. The main provisions of the Code can be found on the Company's intranet site as part of a distance learning programme. In 2019, more than three thousand employees throughout the Company took part in this training, the majority of whom are employed in X5's retail chains.

Employees who interact directly with business partners also receive training on interaction with business partners. In 2019, about 3,000 employees took part in this training.

In 2019, a distance learning course on anti-corruption rules and behaviour, called "X5 Ethical Principles: Business without Corruption", was developed and launched. All staff, with the exception of store employees, were required to take

part in this training course, more than 10 thousand employees completed this training. We plan to develop a separate course for store employees in 2020 that takes into account the specifics of their work and focuses on typical situations that might arise in any of our retail formats.

Training on human rights and the application of the Declaration on Human Rights Protection is an integral part of the training on the Code and in the "X5 Ethical Principles: Business without Corruption" training course.

The determination of standards and requirements, and the development of training programmes in the areas of compliance and ethics are entrusted to the Compliance Department.

Health and safety

Product safety and quality

One of the keys to maintaining the sustainability of our business is upholding consistently high standards of product safety and quality. Our goal is to ensure that every store we operate offers customers fresh and high-quality goods that are safe for consumption.

We continuously refine and develop our systems and policies in this area, and our work on product safety and quality will be an important part of X5’s new sustainability strategy. This is aligned with UN SDG 3 (Good Health and Well-being), which is one of the priority goals where X5 Retail Group can have the most impact through its activities.

Our aim is to implement a system that enables us to track goods “from farm to fork” in order to understand the social and environmental impact of their production, as well as to ensure that the means of production, transportation and storage comply with relevant legislation and our own quality and safety standards.

Product quality system



Pyaterochka

Pyaterochka upholds robust product safety and quality standards throughout the supply chain with the goal of providing customers with fresh, safe and high-quality products. To this end, we have developed a set of rules and regulations that encompass the entire supply chain from production to consumption. Pyaterochka's quality control practices are governed by internal bylaws.

In order to ensure that products are safe for human consumption and for the environment, and also that they comply with retail standards and customer needs, we take an approach based on the principles of hazard analysis and critical control points (HACCP). In addition to HACCP principles, ensuring product quality also involves the following:

- lab testing and analysis at recognised research centres and accredited research laboratories;
- regular staff training on requirements for the Customs Union, the Federal Law on Standardisation, food labelling requirements, food safety management requirements and other rules and regulations regarding quality control;
- safe storage and transport of products;
- use of state-of-the-art monitoring methods and innovative technologies;
- supplier audits.

As part of our multi-format operating model, each retail format has its own Quality Department that, together with the Commercial Department and the Category Management Department, oversees all stages of the product life cycle. Pyaterochka's head office has a Quality Department that is responsible for, among other

things, ensuring that quality-related legislative requirements are taken into account in internal regulations. The Quality Department also provides expert assessments of draft laws in order to facilitate our constructive participation in the legislative process and, together with the Government Relations Department, interacts with oversight and supervisory bodies in order to ensure we properly understand requirements and can have a say in the consideration of new standards, as well as industry associations and producers’ unions, including the Consumer Market Participants Union, the Russian Union of Industrialists and Entrepreneurs, the All-Russian Association of SMEs (Opora), the Civic Chamber of the Russian Federation, the National Dairy Producers Union, the RusBrand Association of Branded Goods Manufacturers, the Seafood Processors Union and the RusProdSoyuz Association of Food Manufacturers and Suppliers.

Ensuring that our products are of high quality is one of the most important tasks of all our commercial departments. Suppliers are regularly audited by independent, accredited international organisations. We continue to work on the preparation of quality specifications for food products, our private labels, and packaging materials as well.

Number of awards received by private-label products

	2017	2018	2019
Pyaterochka	0	11	21
Perekrestok	1	1	1



Perekrestok

Perekrestok has its own Quality Department that, together with the Commercial Department and the Category Management Department, oversees all stages of the product life cycle. Quality control at Perekrestok is governed by internal bylaws.

The Perekrestok Quality Department undertakes comprehensive efforts in its work with suppliers, distribution centres, the Logistics Department, stores and consumers in order to prevent risks related to the quality and safety of goods.

All stages of product movement (from supplier to consumer), which are overseen by managers, are defined and have clear criteria for evaluating critical indicators.

Group-wide initiatives

In 2019, we were part of a wide-scale legal review process initiated by the Russian federal government to review and abolish obsolete regulations applied to business. As part of this process, we worked actively with various authorities, including Rospotrebnadzor (Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing), the Ministry of Industry and Trade, and the Ministry of Justice. The review included the framework for sanitary and epidemiological legislation. We believe that this work will help to improve the regulatory environment for retailers like X5.

X5 participated in pilot experiments on the implementation of labelling and traceability (shoes, light industry, milk, tobacco) organised by the Ministry of Industry and Trade. The system that has been implemented makes it possible to track the path of each individual unit of goods from the manufacturer to retail sale. This approach is intended to help reduce the share of counterfeit goods, primarily in traditional retail trade. By participating in these experiments, we helped to establish reasonable rules for labelling in various product categories.

Quality control at all stages of the product life cycle

Introducing goods into our product range

Prior to signing a contract, our suppliers must provide product samples and documents confirming the quality, safety and origin of the goods to authorised specialists (quality experts) to confirm their compliance with legal requirements and the Company's internal regulations.

In 2019, we increased the number of quality control personnel responsible for introducing private-label goods into the product range, including outside Moscow and St Petersburg. This enabled us to reduce the time needed for approval of requests to add or introduce changes to private-label goods.

In 2019, some 10,948 items were checked and added to our assortment at Pyaterochka and some 10,144 products at Perekrestok. This represents the number of goods that were checked before being added to our assortment matrix.

Number of PLUs from verified suppliers

	2017	2018	2019
Pyaterochka	10,100	12,554	10,948
Perekrestok	14,625 (including 386 private-label goods)	8,841 (including 354 private-label goods)	10,144 (including 383 private-label goods)

A product benchmark is a document that describes in detail the manufacturing process for a private-label product, including what is on the packaging, as well as defining organoleptic, physical, chemical, microbiological and product safety indicators. The product benchmark is an integral part of the supply contract.

Number of product benchmarks established

	2017	2018	2019
Pyaterochka	—*	128	232
Perekrestok	386	354	383

* In 2017, Pyaterochka did not track the number of product benchmarks established.

Acceptance at distribution centres

Upon arrival at a distribution centre, all incoming food products undergo mandatory organoleptic testing in terms of their appearance, consistency, taste and smell, as well as testing for compliance with the standards of the Customs Union and other applicable federal standards. Fruits and vegetables are also tested to measure their nitrate levels and sugar content. X5's quality control of fruits, vegetables and exotic fruits meets Russian national standards, European standards (UNECE), as well as Pyaterochka's own quality certificates and acceptance criteria, including in respect of their calibre, size and ripeness.

In 2019, we began installing equipment for remote acceptance from suppliers. This equipment is currently installed at the site of a major apple producer, and it will be installed at the sites of five more fruit and vegetable producers in the near future. This remote acceptance equipment enables our employees to conduct quality control remotely, and only goods that pass a quality control check are sent to a distribution centre. This initiative has enabled us to improve the efficiency of acceptance while also decreasing shrinkage.

Quality control in stores

In 2019, Pyaterochka launched the Freshness project, which is a strategic project for the format that aims to transform the entire quality control and freshness monitoring process. Changes include the introduction of a new stage of control over the freshness of products when they are dispatched from DCs to stores, store employees are responsible for removing damaged or spoiled products every hour and sorting fruits and vegetables three times a day. Furthermore, goods are now removed from the shelf before the end of the day of their expiry date. This pilot has been successful, with more than a quarter of shoppers noting improvements in fruits, vegetables and fresh products.

In addition, the Quality Department regularly audits stores for compliance with quality and safety standards, which allows us not only to address quality issues quickly but also to improve the quality of the service we offer our customers. This enables us to create an environment of continuous training for store employees, who, based on practical examples, can learn about innovations and adopt best practices.

In 2019, the number of store audits conducted at Pyaterochka and Perekrestok declined year-on-year, partly due to the sharp increase in private-label suppliers and a decision by the Quality Department to focus on fruit and vegetable supplier audits. At Pyaterochka, the significant decline in the number of quality audits by the Quality Department was largely due to the internal reallocation of responsibility for regular store audits to the Security Department, while the Quality Department focused only on audits of "problem stores". Store inspections are conducted on a regular basis by territorial security managers, whose checklists include questions about product quality and storage conditions, as well as expiry dates. Items that do not meet the required conditions are disposed of.

Number of internal quality audits conducted in stores

	2017	2018	2019
Pyaterochka	2,268	1,240	516
Perekrestok	907	880	854



Interaction with customers

Pyaterochka has an efficient, streamlined process in place for dealing with consumer claims and complaints. All claims and complaints received through a variety of communication channels, including email, social networks, the customer hotline, online and from store directors are carefully reviewed. In case of suspicions about a potentially unsafe product, product samples are taken for testing to verify the validity of the claim. If a product of insufficient quality is discovered, it is immediately removed from store shelves and returned to the supplier.

In addition, a system was launched to collect and process complaints from buyers of private-label goods; statistics are maintained, and producers whose goods receive regular complaints are barred and replaced. Unscheduled audits and lab inspections are also initiated in response to complaints. All customers are given feedback on their complaints.

Social networks, online forums and blogs, and periodicals are monitored on a regular basis for information on product quality.

Number of quality-related customer complaints reviewed

	2017	2018	2019
Pyaterochka	1,360	587	2,438
Perekrestok	446	470	418

Complaints included claims regarding the quality and safety of products. For example, organoleptic indicators (taste, colour, smell, etc.), the presence of parasites, foreign matter, etc. Complaints regarding selling space, quality of service, etc. were not considered. Complaints of this kind are transmitted to other functions.

The year-on-year increase in the number of complaints was due to several factors, including changes in the methodology for handling complaints in 2018 and in 2019, as well as continued growth in the number of stores and new communication channels. The change was also driven by the launch of the Best Private Label project, which led to more attention being paid to customer requests.

Supplier audits

As part of the selection and rating of suppliers, a supplier audit is required. The Supplier Audit Programme is available on the supplier portal along with a requirements checklist. All new suppliers must undergo a mandatory audit to confirm that their production facilities are compliant with regulatory quality and food safety requirements, as well as cleanliness and hygiene guidelines in production and storage areas upheld by X5 Retail Group. Suppliers whose facilities did not meet the Company's standards and whose products were considered potentially unsafe and a threat to consumers were barred from selling their goods to stores.

In 2019, 1,890 supplier audits were conducted at Pyaterochka and Perekrestok, including 404 audits of facilities producing private-label goods.

As a result of supplier audits conducted in 2019, 139 suppliers to Pyaterochka and eight suppliers to Perekrestok whose facilities did not meet the Company's standards and whose products were considered potentially unsafe and a threat to consumers were barred from selling their goods to X5.

Number of supplier audits (including audits of private-label goods)			
	2017	2018	2019
Pyaterochka	977	1,085	1,696
Perekrestok	174	225	194

Number of suppliers barred as a result of an audit			
	2017	2018	2019
Pyaterochka	35	190	139
Perekrestok	2 (both private-label suppliers)	2 (including private-label supplier)	8 (including 7 private-label suppliers)

Number of cases where products were not permitted to be added to the product range as a result of an audit			
	2017	2018	2019
Pyaterochka	— *	412	592
Perekrestok	20	20	20

* In 2017, Pyaterochka did not track cases where products were not permitted to be added to the product range as a result of an audit.

In addition, the following actions were taken in 2019:

- The provision on supplier audits was updated.
- All Pyaterochka quality specialists and production managers were trained and approved to conduct audits, which made it possible to significantly increase the frequency of audits conducted by employing more personnel in the Quality Department.
- Pyaterochka, Perekrestok and Karusel signed an agreement on quality audits of private-label goods.
- A project to automate all stages of the supplier audit process was launched: audit requests, audit planning and scheduling, completion of checklists, consolidated reporting and dashboards, and automatic barring of category D suppliers, who are considered to be potentially unreliable or unsafe. A process of submitting and processing audit requests is to be implemented in 2020. The automation project is expected to be completed in Q3 2020.

Continuous product quality testing

In 2019, 6,045 quality tests were conducted, with non-conformities identified in 168 samples. This analysis was aimed at verifying products' organoleptic, physical, chemical and microbiological properties and, in some cases, the declared ingredients, specifically to identify any that had been replaced with cheaper alternatives, as well as any use of food additives, artificial colourants, sweeteners or preserving agents not indicated on the label.

A procedure for management of non-conforming products was developed, which made the decision-making process in response to non-conformities much faster. This decision-making algorithm involves the resampling of products for laboratory research; fines are set for suppliers in the framework of private-label contracts, suppliers are blocked, products are returned to the supplier, etc.

Number of samples of own production goods undergoing quality testing			
	2017	2018	2019
Pyaterochka	2,596	2,980	4,246
Perekrestok	10,634	10,409	11,339

The number of quality tests at Pyaterochka increased due to tighter controls on cheese products.

Number of product samples from suppliers that underwent quality testing			
	2017	2018	2019
Pyaterochka	2,797	1,623	1,799
Perekrestok	1,031 (all private-label goods)*	2,285 (including 1,068 private-label goods)	2,940 (including 1,116 private-label goods)

* In 2017, Perekrestok did not track the number of samples of non-private-label goods.

Number of product samples in which non-conformities were found as a result of analysis			
	2017	2018	2019
Pyaterochka	533	250	168
Perekrestok	266 (private-label goods)*	337 (including 241 private-label goods)	291 (including 190 private-label goods)

* In 2017, Perekrestok did not track the number of samples of non-private-label goods.

Tasting is an assessment of the organoleptic properties (appearance, aroma, taste) of products that are planned for private-label production and are an integral part of any tender. Tasting is carried out in order to determine the leader for the subsequent selection of a private-label supplier.

Number of tastings of private-label goods			
	2017	2018	2019
Pyaterochka	— *	214	649
Perekrestok	121	127	236

* In 2017, Pyaterochka did not track the number of tastings of private-label goods.

Number of inspections by Rospotrebnadzor			
	2017	2018	2019
Pyaterochka	— *	— *	424
Perekrestok	314	246	750

* In 2017, and 2018 Pyaterochka did not track the number of inspections by Rospotrebnadzor.



Work with suppliers

When introducing products into our product range, samples undergo comprehensive testing for compliance with our internal requirements and the laws and regulations of the Russian Federation:

- We verify a range of documents that certify the quality and safety of products, as well as the protection of consumer rights.
- A tasting commission conducts a blind organoleptic evaluation of products and raw materials and assigns a score to each item.
- Accredited laboratories check compliance with the established requirements (microbiology, physical and chemical indicators), determine whether or not products are genuine, and issue test reports. Tests are carried out both for new products and during the process of monitoring goods that have already been supplied.
- Production status and a producer's ability to deliver the required amount of a given product while meeting quality and safety standards is assessed (audited) by certified, independent experts together with Quality Department staff. Based on the results of an audit, a checklist with a comprehensive assessment is completed. Audits are divided into primary audits (pre-contract) and inspections (during the supply process).

Based on the results, the Quality Department decides whether or not to introduce a product into the Perekrestok assortment.

The Quality Department pays particular attention to the quality of private-label goods: for these goods to be introduced into the product range, a separate checklist is completed, and a different procedure is followed that involves more in-depth and stricter testing of suppliers.

Perekrestok has harmonised its approach to supplier evaluations (a single checklist and common evaluation criteria) with the Karusel and Pyaterochka Quality Departments, and the three formats share a database of supplier audits and product samples. A tripartite agreement on the mutual recognition of supplier audits and product testing has been developed and implemented.

2019 highlights

- To check the quality and safety of products in the overall product range, the Quality Department revised and launched for testing (for six months) a regulation on adding products to the assortment in order to optimise the process.
- DCs are monitored on a daily basis to check sanitary conditions and compliance with product storage regulations (checklist).
- In order to improve quality control and analysis of product acceptance at DCs, a product acceptance procedure using a tablet was developed and implemented in cooperation with the Logistics Department.
- Thirteen specifications for tenders were developed for conducting incoming quality control of products at DCs.
- The Quality Department monitors stores' compliance with established public health regulations regarding the storage, production and sale of products.
- The Quality Department introduced a procedure for auditing the Company's commercial facilities, including a follow-up assessment of their condition.
- Some 418 private-label goods received declarations of conformity, and the technical specifications for the production of three new products were developed, while the specifications for 14 others were updated.

The Quality Department is constantly updating its working and methodological instructions for the production and sale of products. Store personnel and store managers receive training on sanitation and hygiene through a programme in preparation of regulatory inspections as part of the Mercury product verification system.

Promoting healthy lifestyles

In line with our Sustainability Strategy and UN SDG 3 (Good Health and Well-being), as well as in response to growing consumer demand for foods that support a healthier lifestyle, we defined and introduced new healthy lifestyle categories for our retail formats. These include:

- Gluten-free
- Organic
- Vegan
- Natural / Wholesome ingredients
- Fresh from the farm
- High-protein
- Low-calorie
- No added sugar
- Other healthy lifestyles



Pyaterochka

Healthy lifestyle project launched in 2019

The Pyaterochka healthy lifestyle project was launched in October 2019 and involved creating specific shelving units for healthy foods. We used special signage to inform customers about the location of health foods in stores.

This project was designed to better inform people looking for healthy foods about the assortment available at Pyaterochka, and to help customers to find the full selection of goods that Pyaterochka offers.



Perekrestok

Our Perekrestok supermarkets launched a pilot project to set up special zones featuring products for healthy lifestyles and good nutrition in 2019. We aim for Perekrestok to become recognised as a supermarket for customers with healthy habits.

The project included piloting of special zones for healthy and environmentally friendly products as one of the first steps in the format's implementation of its new healthy lifestyle strategy.

In order to develop Perekrestok's health food offering, a Health Working Group has been set up. This includes a private-label manager and employees in the Health business area, such as a brand manager, commercial manager, independent consultant and a project manager.

As part of the pilots for Perekrestok's health lifestyle strategy, the Company launched "healthy lifestyle corners" in 20 stores and expanded its Green Line private label across categories and regions.

Rational consumption of resources

Our business strategy has for many years included targets to reduce costs related to solid waste disposal and energy consumption. We have also encouraged our customers to participate in various initiatives to recycle or reduce the use of non-reusable packaging for some time. Under the new [Sustainable development strategy](#) approved in December 2019, we are continuing to implement current practices aimed at supporting UN SDG 12 (Responsible Consumption and Production), which we have identified as a priority for X5, as well as secondary UN SDGs listed on pages 164–165 of this report. In order to continue to improve our performance in these areas, we are also piloting and introducing new and innovative ways to optimise our own resource consumption and further encourage our customers to reduce, reuse and recycle.

Based on surveys of consumer priorities among our target groups in Russia, we believe that our priorities in this area are fully aligned with those of our customers, who increasingly want to see the companies they do business with acting in a responsible way in terms of environmental footprint.

Waste management

Solid waste and recycling

Our approach to solid waste aims to minimise the volume of solid waste that is sent to landfills by reducing the overall volume of waste we generate and maximising recycling volumes. This is achieved through, among other things, more accurate inventory planning, which includes big data–driven demand modelling along with more frequent product deliveries, better adaptation of the product mix to customer needs and smaller minimum order quantities (MOQs) negotiated with suppliers as well as meeting all temperature requirements during transportation.



Pyaterochka

Pyaterochka stores sort the solid waste they generate, with plastics, paper and cardboard, and plastic film compacted separately. Recyclable materials are shipped from stores back to our DCs, where they are sent for recycling.

During the course of 2019, Pyaterochka worked with government-approved regional operators for waste disposal. All non-recyclable solid waste is handled by these approved operators.



Perekrestok

Perekrestok continues to recycle all useful types of waste, including packing cardboard and polyethylene, plastic boxes for fruits and mushrooms, polystyrene for chilled fish, banana boxes, used shopping carts, waste vegetable oils and wooden containers. About 72% of the waste Perekrestok generates is recycled. For the remaining 28%, Perekrestok is actively looking for ways to start recycling. As a pilot project, we began recycling wooden pallets last year from the stores in our Central divisions, which reduced the amount of trash sent to landfills.

With the introduction of a record-keeping and monitoring system for recyclables, Perekrestok's income from the sale of recyclables increased by 18% both in monetary and volume terms.

Perekrestok also continues to implement a project aimed at the return of reusable containers from stores to DCs, including pallets, plastic boxes and more.



Central office

After installing a container for used batteries, we collected about 100 kg of used alkaline batteries and handed them over for recycling.



Giving paper a new life

The format's offices launched a project for the collection of waste paper. The Operations Department installed 10 special boxes for collecting paper, and we are now receiving around 200 kg of paper every month for recycling.



Amount of recyclable waste sold from stores, *tht tonnes**

	2017	2018	2019**
Cardboard	256	280	301
Pallet scrap	124	189	220
Shrink wrap	16	19	39
Banana boxes	16	12	21
Plastic	7	7	9
TOTAL	419	507	590

Income from the sale of recyclable waste from stores, *RUB mln*

	2017	2018	2019
Pyaterochka	1,386	1,817	2,107
Perekrestok	172	314	386
TOTAL	1,558	2,131	2,493

* Restatements of previous periods are due to the refinement of the methodology.
**Excluding Karusel.



Food waste

As a food retailer we seek to both minimise the volume of waste generated and the impact of its disposal. All food waste generated by X5 stores is sent to third parties for landfilling or recycling. We are looking for opportunities and piloting technological solutions to transfer food waste for further processing.

Pyaterochka launched an initiative at its proximity stores to transfer unsold food and merchandise that becomes unsaleable before its expiry date for recycling into animal feed. The chain plans to roll out this initiative across all its stores by April 2020, with ca. 70% of such items to be sent for processing. The decision was made following a 10-month pilot project covering nearly all the regions where Pyaterochka operates. As part of the pilot, the chain was able to increase the volume of food sent for recycling to 2.5 kt a month, which is up to 30% of the potential waste from over 5,000 pilot stores. For this purpose, Pyaterochka launched a new business process for sorting, packing and sending a portion of unsold stocks to the project partners on a daily basis. The partners are 10 companies from across Russia that collect fruit, vegetables, pastry and groceries that have become deformed and unsaleable before their expiry date in order to turn them into animal feed. In 2019, Pyaterochka sold 13.2 thousand tonnes of unsold stock.

Perekrestok arranges centralised monthly removal of food waste for recycling. Previously, every store was equipped with special refrigerators for the temporary storage of food and biological waste, which made it possible to introduce a procedure for the collection, storage and removal of biological waste in accordance with Russian regulations. Some regions have begun selling some unsold food for animal feed, which greatly reduced the cost of disposal. As a cost-saving measure, the Company has stopped the storage and handover of biological waste at stores. Instead, a procedure was introduced for the thermal processing of animal waste. Thermal-processing equipment was acquired, and instructions for handling waste and the aforementioned equipment at Perekrestok stores were prepared and circulated.



Packaging

We are working on various initiatives to reduce the amount of consumer packaging we use, ranging from the development of a new category of products without packaging to the use of reusable and/or recycled packaging. Some of the practices we already have in place to reduce packaging include the following:

- X5 does not give out free plastic bags at checkout counters in its stores, which reduces consumption of disposable packaging.
- X5 offers customers reusable bags as an alternative to disposable ones.
- In some regional stores, we offer paper bags as an alternative to plastic ones.
- In order to minimise plastic waste, the online supermarket Perekrestok.ru piloted the collection of plastic delivery bags for recycling. Customers can return plastic bags used during delivery to the courier.
- Pyaterochka successfully piloted and is rolling out the use of reusable bags for weighing fruits and vegetables.
- Perekrestok started preparing a pilot programme to use plastic bags that are made from 35% recycled plastic.

X5 constantly reviews proposals from innovative vendors who offer production and supply of environmentally friendly packaging for stores. X5 has also teamed up with R&D centres and manufacturers of eco-friendly packaging to explore new ways to reduce packaging waste.

Facilitating recycling of consumer packaging

As part of a pilot project to collect used plastic and aluminium beverage containers of any size and colour for recycling, reverse vending machines were installed at 10 Pyaterochka stores in Moscow. The project is being implemented in partnership with the Coca-Cola system in Russia. For each bottle and/or can returned, the machine issues a coupon for 15% off a range of Coca-Cola drinks.

Ten reverse vending machines were also installed in seven Perekrestok supermarkets and three Karusel hypermarkets in Moscow as part of a pilot project to collect used plastics for recycling. The project is being implemented in partnership with Unilever. In order to encourage consumers to sort their waste, a coupon is issued for each item of packaging that is returned, offering 10% off a selection of Unilever products at Perekrestok and Karusel stores.

Energy consumption

Electricity consumption accounts for about 80% of X5's total utility costs, which makes it a priority. We regularly pilot and introduce new energy-efficient technologies that enable us to reduce energy consumption. As part of our energy-efficiency programme, X5 is gradually reducing electricity consumption per square metre of retail space. We do this with the help of automated monitoring systems that record electric energy consumption, as well as a monitoring and control centre for these systems. Some of our key initiatives to optimise energy use include:

- setting up an automatic data collection system across Pyaterochka stores to reduce electricity consumption, analyse the data flow and calculate optimal tariffs. As of 31 December 2019, 97% of Pyaterochka stores were providing real-time data on electricity consumption through this system. All new stores have smart meters in place. We are expecting annual savings of at least RUB 150 million as a result;
- rolling out the extended Smart Store pilot in the Pyaterochka retail chain to cut energy consumption at retail outlets by 5%. From 2020, all newly opened and refurbished Pyaterochka stores will be equipped with this technology;
- using remotely controlled refrigeration systems in all Pyaterochka stores;
- rolling out a comprehensive system in Perekrestok stores that helps to improve the energy efficiency of supermarkets. The automated control and monitoring system will help cut power consumption in stores by an average of 10%. The energy-efficiency system regulates equipment and lighting loads based on the operating mode of the retail facility, current temperature indoors and outdoors, and CO2 content in the air. The new technology has already been piloted and is now being integrated into every new store;
- launching the Improving the Energy Efficiency of Automated Electricity Fiscal Metering project across Perekrestok stores to enable checking of electricity meters at the point of metering and to enter into direct power supply contracts based on multiple tariffs;
- Perekrestok took the decision to extend its "Energy-Efficiency Upgrade of the Automated Commercial Energy Metering System" (ACEMS) project into 2020. The ACEMS project provides us with reliable information on electricity consumption, enables us to check meters on the spot and to conclude direct contracts for energy supply on the basis of multi-tariff payments. All new and refurbished stores are equipped with ACEMS and all new lease agreements have an option to switch to direct electricity contracts;
- installing LED lighting in all Perekrestok and Pyaterochka stores.

Pyaterochka and Perekrestok have completely switched to LED lighting in their stores. We have stopped using all mercury-containing fluorescent bulbs. As a result, in addition to consuming less energy, we no longer generate class 1 waste (such as used fluorescent bulbs), which is extremely hazardous for the environment. Consequently, there are no costs for their disposal and removal. LED lamps are classified as low-hazard waste in terms of their environmental impact, and they do not require special processing.

Savings from remote refrigeration monitoring system at Pyaterochka, MW-h/year

	2017	2018	2019
Reduction in electricity consumption	9,444	11,430	11,984

Consumption at Pyaterochka, MW-h/year

	2017	2018	2019
Consumption	1,888,858	2,285,948	2,396,869

Energy intensity at Pyaterochka, kW-h/100 m²

	2017	2018	2019
Energy intensity	24.80	24.48	22.73

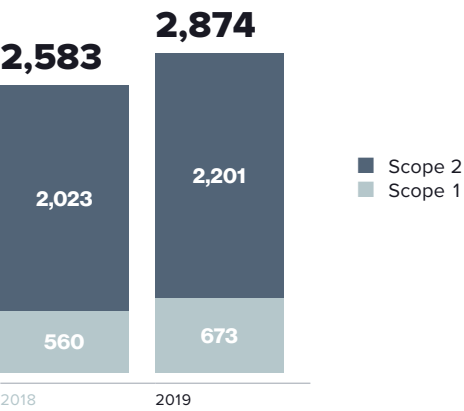
X5 Retail Group's greenhouse gas emissions

The largest part of our greenhouse gas (GHG) footprint comes from the electricity and central heating energy that we purchase to supply our stores, offices and distribution centres. We are continuously seeking ways to reduce or optimise our energy consumption, while also taking measures to improve the GHG footprint of our own operations, including from refrigerants and transport fuels.

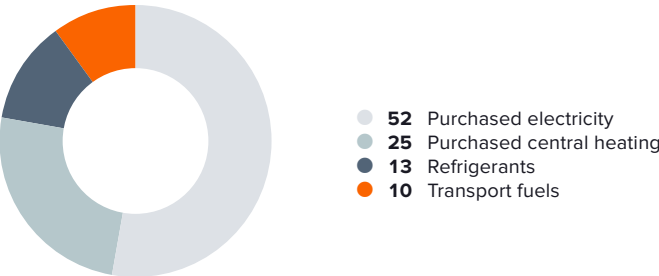
X5 Retail Group closely monitors its impact on the climate. In 2019, we launched a Group-wide greenhouse gas emissions assessment in line with the GHG Protocol Corporate Accounting and Reporting Standard (Revised Edition), with a base year of 2018.

We have developed a GHG inventory for our key business units, i.e. Pyaterochka proximity stores, Perekrestok supermarkets and Karusel hypermarkets, as well as associated distribution centres, logistics hubs (RVI), the Smart Kitchen (Fabrika-Kukhnya), Company-owned trucks (Agro-Avto) and the administrative department (Corporate Centre).

Gross GHG emissions, kt of CO2e



GHG emissions structure in 2019, %



GHG emissions dynamics

Compared with the 2018 base year, Scope 1+2 (2,645 kilotonnes of CO2e), GHG emissions increased by 8.7% year-on-year in 2019. This growth is associated primarily with extensive growth in the number of stores and total selling space. We aim to reduce greenhouse gas emissions by increasing energy efficiency and replacing refrigerants with high global warming potential with more climate-acceptable alternatives.

Optimising logistics performance

In line with UN SDG 12 (Responsible Consumption and Production), which is part of our Sustainability Strategy, we undertake to optimise our logistics operations by reducing consumption of energy and materials and waste generation. Key elements of our work in this area are described below, in line with the separate logistics functions run by Pyaterochka and Perekrestok.



Distribution centres



Pyaterochka

In its DC operations, Pyaterochka seeks to reduce the consumption of energy and materials, while also improving the quality of buildings and reducing operating costs. As a result of the following initiatives, we expect to reduce the impact of the construction of distribution centres on the environment.

Pyaterochka DCs and stores recycle wastepaper, plastics and polyethylene for processing. In 2019, we processed 158 thousand tonnes of recyclable waste. In addition to recycling, we are taking measures to reduce waste generation, such as recycling reusable boxes that are used for deliveries of smaller shipments to stores. We are also testing pooling of boxes for fruit and vegetable suppliers, and we aim to start testing the pooling of pallets in March 2020.

Energy consumption is another area of continued focus in our logistics operations. During 2019, we took a number of measures to further decrease energy consumption:

- Energy-saving lighting and motion sensors were installed at all DCs.
- Refrigeration units were upgraded at three distribution centres (Forpost DC, Lobnya DC and ZTL DC) to enable them to use free cooling technology, which uses outside air to maintain temperature ranges across the various zones in DCs during the winter period.
- Electricity was purchased in the wholesale market for four distribution centres (Podolsk DC, Bogorodsk DC, Samara DC and Lobnya DC).
- A solar collector was installed at the Rostov DC.
- A telemetry project was launched in 2019 in order to increase transparency in accounting and improve the manageability of energy costs at the Company's DCs; the system was deployed at nine DCs in 2019.
- In order to reduce the amount of loading and unloading equipment used, a monitoring and access control system for loading equipment was introduced at Pyaterochka DCs.

In 2019, external environmental regulations applicable to Pyaterochka DCs were identified, and compliance with these requirements is monitored on an ongoing basis using audit checklists.

In addition to further measures aimed at recycling and reducing waste generation, as well as energy conservation, we will begin introducing elements of ISO 14001 (environmental management) at DCs in 2020.



Perekrestok

Perekrestok plans to introduce a system that enables us to track products "from farm to fork" in order to improve freshness, increase productivity and efficiency, as well as enable us to ensure the use of efficient, safe and healthy production and transportation throughout the supply chain.

Some highlights of Perekrestok's supply chain environmental protection activities include the following:

- Perekrestok sorts solid waste at all stores and DCs, and sent over 1,700 tonnes of waste for recycling in 2019.
- Some 125 batteries for DC loading equipment were sent for processing and further disposal.
- Perekrestok's fleet of diesel loaders was upgraded to more energy-efficient ones, which enabled the format to reduce fuel consumption and CO2 emissions by up to 10% without a decrease in performance.
- All DCs use energy-saving LED lighting: the final refitting of LED lighting at a DC was completed in February 2020.
- To increase the efficiency and productivity of loading and unloading equipment, a system for monitoring and access to loading equipment has been introduced at the Sofino and St Petersburg DCs.
- The Smart Circuit Board project has been introduced at the Sofino DC for effective heat supply management in order to reduce heat losses and energy costs.

Optimising logistics performance



Transport

Since our most significant environmental impact comes from our transport unit, we use a variety of approaches to minimise the footprint of transporting goods from our DCs to stores. Our fleet covered 77% of our transport needs in 2019, and it is newer than the fleets of most of our external contractors, making it possible to decrease emissions and prevent pollution caused by maintenance operations. Contractors are responsible for compliance with environmental requirements, and our transport service agreements stipulate that trucks must meet all legislative requirements, including environmental requirements.

We use certified service stations to provide regular maintenance for our trucks in line with legislation and the norms established by truck manufacturers based on either the number of kilometres on the odometer or the vehicle's working life. Daily monitoring of the condition of our vehicles, including their exhaust systems, is part of our mechanics' and drivers' responsibilities. If serious failures are detected in a vehicle, it is withdrawn from service and sent for repair.

In addition, we do not purchase used or outdated vehicles, nor do we use vehicles that have reached the end of their service life in accordance with the manufacturer's recommendations. As of the end of 2019, the average age of vehicles in the Company's fleet was 2.6 years. Ninety-three per cent of X5's vehicles comply with Euro 5 and Euro 4 standards, and 7% are Euro 3-rated. Since 2018, we have been purchasing only Euro 5-rated or higher-class vehicles, and we have been using only high-quality fuel from leading producers.

Our main areas of focus and goals for 2020 are the following:

- reducing empty run mileage;
- reducing emissions and switching to petrol–diesel engines;
- using mobile electronic bills of lading to reduce paper workflow;
- piloting predictive analytics aimed at reducing emissions and expenditures on spare parts, as well as improving driving safety;
- selling 100% of batteries and tyres for recycling and reuse.



	UNIT	2017	2018	2019
Share of transportation needs provided by its own fleet *	%	71%	74%	77%
Share of own fleet vehicles that meet Euro 5 and Euro 4 standards	%	75%	88%	93%
Number of vehicles with a hybrid (petrol–diesel) engine purchased per year	Units	100	150	219
Number of vehicles with a hybrid engine (petrol–diesel) as of the end of the year *	Units	100	250	469
Number of Euro 5–rated trucks as of the end of the reporting period	Units	1,122	2,012	2,468
Number of Euro 5–rated trucks purchased per year	Units	597	910	468
Number of old, Euro 3–rated vehicles written off during the year	Units	194	361	192
Total mileage	mln km	345	444	507
Empty run mileage (of total mileage) *	%	44%	41%	40%
Number of tyres sold for recycling and reuse	Units	3,136	3,976	8,082
Batteries sold for recycling and reuse	kg	48,756	64,227	68,426

* Restatements of previous periods are due to the refinement of the methodology

Air emissions				
	UNIT	2017	2018	2019
CO	tonnes/year	4,741	5,570	6,109
Nox	tonnes/year	10,058	10,734	10,695
HC	tonnes/year	1,471	1,717	1,878
PM	tonnes/year	140	116	102
TOTAL	tonnes/year	16,410	18,137	18,784

During 2020, we aim to maintain the share of empty run mileage at 2019 levels while increasing the percentage of transport between branches. We also plan to achieve 100% sales of recyclable materials and 100% sales of batteries and tyres for recycling and reuse.

People review

Decent working conditions and equal opportunities for all employees

+29,045 2018/19
307,444
Headcount

One of our primary goals under our new Sustainable development strategy is to support UN SDG 8 (Decent Work and Economic Growth). The main ways that we can do this is by employing people from the communities where we operate and by offering our employees safe, productive and fulfilling jobs.

We also aim to support UN SDG 5 (Gender Equality) and UN SDG 10 (Reduced Inequalities) by implementing a [human rights policy](#) that bars any form of discrimination in the workplace and provides mechanisms to ensure that these principles are upheld.

In determining the priorities of our human resources strategy, we are guided by staffing requirements that will enable us to implement our strategy and by feedback we receive from employee surveys and other channels, which are described in more detail below.

Key highlights

	Headcount	Number of training participants	Investments in training, RUB mln	Male / Female, %
2019 →	307,444	703,961	199.8	26 / 74
2018 →	278,399	422,846	150.7	27 / 73
2017 →	250,874	234,899	139.3	26 / 74



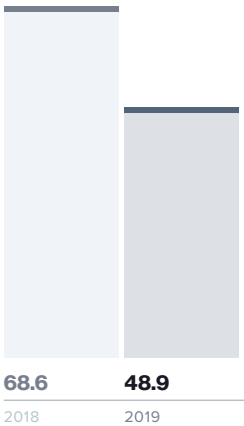
Percentage of women and men in management positions

MANAGEMENT LEVEL	% OF WOMEN
Management Board / CEO-1	36%
Senior management / CEO-2, 3	40%
Middle management / CEO-4	42%

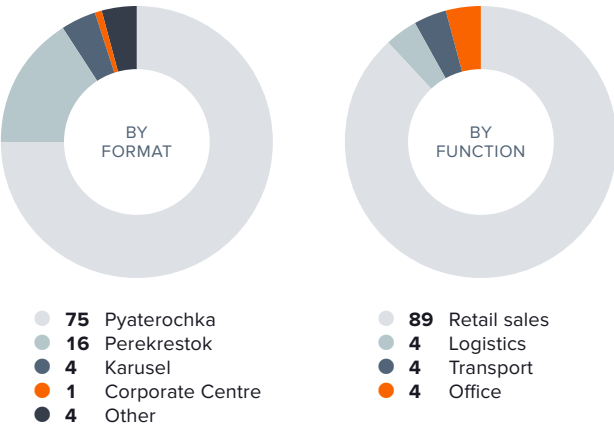
Full-time equivalent

	2018	2019
Pyaterochka	181,176	201,135
Perekrestok	40,642	42,854
Karusel	14,806	13,769
Corporate centre	2,607	3,016
Other business units	7,594	8,526
TOTAL	246,825	269,300

Staff turnover, %



Personnel structure in 2019, %



Our HR strategy

In 2019, X5 Retail Group focused on achieving its strategic goals, including in the area of human resources (HR). Our goal is to become a best-in-class employer for both current and future employees in the context of ongoing changes within the Company, in the market and among customers. To achieve this, our HR strategy is aimed at enhancing employee engagement, digitising key HR processes and services for employees and working with HR data, while also increasing the Company’s flexibility in terms of organisational development and approaches to working with personnel.

Thanks to the successful implementation of our HR strategy, we achieved a decrease in retail staff turnover of 21.6 p.p. year-on-year in 2019.

Engaged employees = satisfied customers

Based on the results of the “Your Voice” employee survey conducted in 2018 (please see the 2018 Annual Report, page 161), we took a number of steps to enhance the engagement of office and retail personnel, such as improving working conditions, updating our motivation system and getting regular feedback from employees.

Feedback from employees

We introduced new technologies and changed our internal processes in order to expand the channels available to employees for providing feedback, which is the basis for decision-making, including with regard to staff.

- Pyaterochka integrated an instant-feedback module into its Personal Account mobile application, which is available to all retail personnel. In conjunction with the Big Data Department, a polling platform was introduced that enables us to get responses from the largest number of Pyaterochka employees possible, and at all levels.
- Regular employee NPS surveys were launched at Perekrestok and in the Transport business unit.
- We are developing projects to collect and review staff initiatives: Pyaterochka has a system in place for collecting ideas and efficiency proposals (over 2,000 ideas were submitted for consideration in 2019; approximately 1,200 have already been implemented, and 400 are in the process of implementation); the Transport business unit has developed a process for gathering expert advice within the framework of its Idea Factory (195 ideas were submitted for consideration

in 2019, 17 of which were implemented, and 26 are in the process of implementation).

- X5 conducted its first-ever internal customer satisfaction index, in which staff were able to assess the work of other departments and functions.

Effective motivation and fair remuneration

In line with market practice, X5’s processes are designed to uphold a fair, consistent and transparent remuneration and motivation system related to individual performance and team results.

- Personnel assessments with 100% coverage include:
- monthly, quarterly and semi-annual performance evaluations;
 - employee ratings at X5 stores;
 - annual evaluations of KPIs for all administrative staff, as well as for certain categories of retail and logistics personnel;
 - performance assessment for project teams based on the results of project stages.

- Key achievements in 2019:
- Remuneration systems were revised for personnel at Pyaterochka and Perekrestok, as well as for X5 drivers. Motivation systems focused on productivity growth were simplified and made easier for staff to understand.
 - A new approach to KPIs was developed for 2020 that will enable us to increase the involvement of employees in achieving corporate targets and to share in the success of implementing them.
 - In 2019, we continued our transition to a cross-format grading system, and we attached to it a percentage of annual bonuses, voluntary health insurance and life insurance programmes, business trips, corporate mobile communications,

Highlights of X5’s HR strategy:

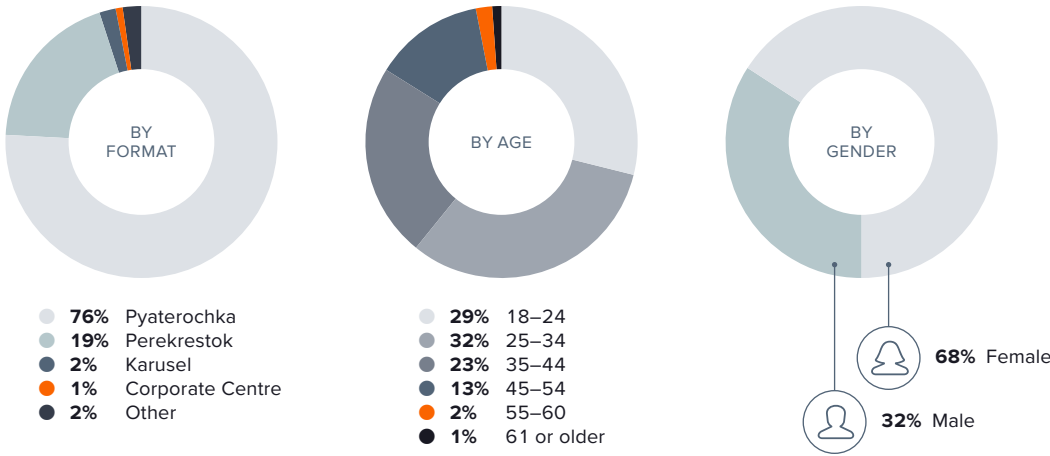
- Engaged employees = satisfied customers:** improving customer service by meeting the needs of staff;
- Systematic work on the competencies of employees and managers;**
- Productivity growth** (innovative technologies, HR metrics and services);
- Digital transformation:** maintaining and supporting the implementation of digital initiatives.

- etc. Bonus programmes were developed for new digital business units.
- A successful pilot was conducted involving two elements: remote work by office staff and using unassigned workplaces in the office. Scaling of this project will begin in 2020.
 - The PrimeZone corporate privilege programme, which is used by 90% of X5 office employees throughout Russia, was expanded to include Perekrestok store managers.
 - Some 11,878 employees took parental leave in 2019.
 - As part of a conceptual update for Pyaterochka and Perekrestok stores, we changed the way we arrange and design staff break areas. We have started designing our staff rooms in the same comfortable and attractive manner as our shopping areas.

Recruitment and adaptation

- Pyaterochka conducted a successful pilot of the Skillaz cloud-based system for large-scale recruitment and launched a minimum viable product (MVP) for monitoring the salary market in all regions where the Company operates. The recruitment time for one member of line personnel was reduced from 10 to 5.5 days.
- Perekrestok uses an algorithm to create a stream of applicants for priority locations, as well as an adaptive chatbot. The processes of calculating staffing needs, placing vacancy notices, collecting applicant responses and contact details, and planning and requesting temporary staff have all been automated.
- A special focus in 2019 was on bolstering the position of X5’s HR brands for applicants at all levels. Processes for developing value propositions for Pyaterochka as an employer and for X5 Retail Group began, with emphasis on the technological potential of X5 as a company that is developing the future of retail.

New hires structure in 2019



Corporate culture and values

Continuous, rapid change is part of our cultural DNA. This is what makes us flexible and allows us to maintain our leadership in an aggressive, competitive environment. It enables us to launch products and solutions demanded by customers faster than our peers, and it allows us to be exactly where shoppers want to see us — both online and offline. Uniform values, shared traditions, an open information environment and excellent opportunities for development help us to remain unified and to maintain X5’s consistency of operations.

In 2019, we continued implementing shared corporate values. These values have already been integrated into the majority of the HR processes in our business units, from assessing the suitability of external candidates to practices involved in evaluating the quality of teams and the formation of a staff reserve. In 2019, the winners of X5’s cross-format Most Valuable Employee award from all retail formats and business units were, for the first time, nominated and selected by employees through an open vote.

X5’s HR Department was one of the first corporate functions to launch a product approach. Since September, the product team has been developing a product called the “Unified Information Environment”, which is creating a fast and user-friendly state-of-the-art corporate portal. The MVP was tested at the end of 2019, and we plan to launch a new version of the portal for all office employees in Q1 2020.

In line with the product approach, a single mobile platform (application) is being developed for Perekrestok staff, the MVP for which was also introduced at the end of 2019. The X5 Transport app was launched for drivers in 2019, and Pyaterochka employees gained access to the Personal Account mobile application for Android and iOS.

Events for employees

X5 supports traditional corporate events, while also developing new ones. In 2019, the entire Company was united by happy.x5, a virtual platform for holidays. During the year, more than 90,000 people visited the platform.

In total, 64 events were organised in 2019, which were attended by nearly 670,000 people. At Pyaterochka, this included a Transformation roadshow, which was held for the first time with the participation of top management. The roadshow visited seven cities and involved 2,400 participants. Throughout the entire year, emphasis was placed on a culture of trust and teamwork. Based on feedback from employees, Pyaterochka revised the format of its sports competition, which involved 23 events for 28,000 employees from 211 cities. Perekrestok held a corporate volleyball tournament in all regions where it operates and arranged a presentation for the employees of the new Smart Kitchen division timed to coincide with X5’s anniversary.

Professional recognition and non-financial motivation

One of our main goals for 2019 included non-financial motivation for staff and improving the attractiveness of the HR brands of our retail formats and of X5 as a whole. More than 160,000 employees from 14,500 stores and 32 Pyaterochka distribution centres took part in the “Pyaterochka Masters” contest. Perekrestok again held its “Logistics Superman” competitions, as well as “Victory at the Till” and “Culinary Duel” competitions for cashiers and cooks, respectively. Transport launched a comprehensive long-term programme called “Champions League Drive X5”, with internal ratings and awards for the top drivers; a professional skills competition called “League of Professional Drivers”; and contests for drivers and their families.

Professional development

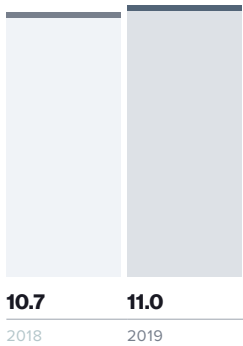
In order to achieve the ambitious goals laid out in our business strategy, we need a strong team in which everyone is capable of rising above their own interests and seeing the potential of teamwork. Our goal is to enhance career ladders, provide various tools for impactful work and development, and create an open, innovative environment that supports the path to a digital business transformation.

Training and development

- Various training and development programmes are available to X5 employees at all levels, from cashiers to top managers. Each programme is based on our business needs, on the one hand, and plans for employee development, on the other. We use state-of-the-art training formats and support the development of lifelong learning.
- The range of training programmes varies depending on job duties and assessments of work quality and goals. We constantly strengthen our team by hiring talented new employees with great potential, and we offer staff a variety of opportunities for professional growth and development.
- In 2019, our efforts were focused on developing strong leaders who can work collectively in the interests of X5 and who are capable of building a next-generation retailer together. To this end, about 100 X5 executives were trained as part of the cross-format “X5 Leaders” programmes at IMD and Skolkovo. The programmes will continue in 2020.
- Comprehensive work aimed at improving managerial skills and the business vision of middle management helped in greatly reducing turnover. Pyaterochka launched a programme called “First Division” for operations managers, supervisors, shift supervisors and distribution centre managers (673 people). In addition to existing programmes,

- Pyaterochka also launched a Logistics Academy and an HR Academy, while Perekrestok used a gaming format to train managers in its “Management Cycle” course.
- Perekrestok launched an annual programme for the development of retail personnel. It includes blocks such as “Engagement”, “Effective Management”, “Team Development” and “Coaching”.
 - In April–May 2019, an employee engagement event was held at Perekrestok that included the following topics: a tool selection algorithm, corporate values, situational leadership, group influence techniques, feedback principles and interviews on values. Some 675 store managers were trained.
 - A training concept for retail personnel was developed at Pyaterochka. Several training courses were carried out, including “Service Navigator”, “PROservice”, and “Service Expert”. A project was implemented to develop our internal trainers.

Hours of training per employee



Internal growth

At X5, talented employees with a great deal of potential have a wide range of opportunities for professional and career growth. The rapid development of new business areas within the Company, including digital businesses, the start of a digital transformation and the introduction of a unified system of grades/bands reinforced the trend towards horizontal and vertical movements at X5.

A staff reserve programme is being developed that now covers retail personnel as well. For example, Perekrestok’s staff reserve increased by 8% during the year. At X5’s Corporate Centre, we began holding personnel committee meetings in all departments to discuss prospects for the development of line managers and to determine the staff reserve for more senior positions. As of the end of 2019, 60% of vacant positions within X5 at the level of CEO-1 and CEO-2 were filled by internal candidates. In 2019, 77% of managerial vacancies within the Company as a whole were filled by internal candidates.



Improving efficiency and productivity

One of our goals is to increasingly digitise X5’s HR function, including the standardisation and automation of HR processes and of processes involved in analysing personnel data to make proper, informed decisions, while also improving the quantity and quality of HR services for staff.

In 2019, we switched to an automated, centralised system of HR metrics. With the system’s help, 38 personnel and business indicators are calculated on a daily basis, which enables us to quickly receive information with a detailed breakdown by individual stores and departments, and also to develop analytical models for making personnel-related decisions.

The Personal Account application, which provides electronic HR services for staff, was greatly expanded during 2019. In addition to requests for a variety of personnel documents, the system also gives personnel access to other functions, such as vacation planning, digital signatures, access to Company bylaws and much more. Mobile applications available to all employees, including store staff, are being improved.

Perekrestok ran a pilot project during 2019 to replace the system used to track the working hours of line personnel, which used to use fingerprint access, with a video recording system that monitors employees at work in different areas of stores. The retail format also uses flexible scheduling, i.e., a system of automated staff scheduling that takes into account stores’ needs on any given day and throughout the week.

One of the Company’s key HR projects in 2020 will be the launch of a common Human Resource Management service centre located at X5’s service centre in Nizhny Novgorod. Sixty-five personnel-related business processes and services for more than 43,000 staff members have already been transferred to the HR service centre, and a plan for transferring Pyaterochka’s transactional personnel processes in 2020 has been prepared.

Digital transformation

Digital transformation, which is one of the core goals of our business strategy, played an important role in all of our HR activities in 2019, from organisational structure to training and recruitment. This included the creation of an institution for HR business partners to support newly created digital businesses and new areas for the Company’s development.

We also began to use a product approach methodology for the creation and scaling of agile internal development. This is being used for the establishment and work of all X5 product teams.

The first modules of X5’s Digital Academy were also launched. These are platforms for online and offline staff development, knowledge and skills training necessary for the implementation of digital initiatives, and for X5’s transformation and growth. A school for product owners is in place, with schools for scrum masters, Python and data analysts next in line. Employees will have access to courses on digital transformation, the basics of the X5’s product approach, digital technologies, data management and others.

Human rights

We support the four fundamental principles outlined in the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work. We prohibit the use of forced and child labour. In addition, we do not tolerate discrimination on the basis of gender, skin colour, ethnicity, religion, sexual orientation or disability in our operations or our supply chain.

Our Declaration on Human Rights is updated as necessary, in line with changes in the legislation, strategy and values of the Company.

In the framework of regulatory risk management, all risks associated with violations of labour



legislation* are allocated to a separate group of risks, which are assessed on an annual basis. The result of the assessment affects the priority of the organisation of compliance activities (the complexity and number of such activities depend on the level of risk). Information on critical risks, as well as the most significant risks with a high impact (according to the approved risk assessment methodology) and a plan of compliance measures aimed at mitigating these risks, is reported to the CEO and the Audit and Risk Committee of the Supervisory Board twice a year.

Information about X5’s activities that protect fundamental human rights is available in the relevant sections of this Report.

On ensuring equal rights and freedoms regardless of gender, race, nationality, language, origin, property and official position, place of residence, religion, beliefs, membership of public associations (Article 19 of the Constitution of the Russian Federation), see the “People review” section (pages 190–203).

- The following were the key initiatives in the reporting period:**
- Various training and development programmes were available to X5 employees at all levels, from cashiers to top managers.
 - A wide range of opportunities were provided for professional and career growth for talented employees.

On securing the right to work in conditions that meet the requirements of safety and hygiene (Article 37 of the Constitution of the Russian Federation), the right to protection of one’s health and medical care (Article 41 of the Constitution of the Russian Federation), see the “Occupational health and safety” section (pages 198–203).

- The following were the key initiatives in the reporting period:**
- Our OHS management system was regularly updated in response to changes in Russian regulatory requirements.
 - Implementation of OHS measures was constantly monitored, and impact assessments were carried out on a regular basis.
 - The OHS-related qualifications of personnel have improved thanks to ongoing training courses and seminars.

On ensuring the right to remuneration for work without any discrimination and at a level that is not lower than the minimum wage established by federal law, the right to rest (Article 37 of the Constitution of the Russian Federation), and also on voluntary social security (Article 39 of the Constitution of the Russian Federation), see the “People review” section (pages 190–203).

- The following were the key initiatives in the reporting period:**
- Remuneration systems were revised for personnel at Pyaterochka and Perekrestok, as well as for X5 drivers. Motivation systems focused on productivity growth were simplified and made easier for staff to understand.
 - A new approach to KPIs was developed for 2020 that will enable us to increase the involvement of employees in achieving corporate targets and to share in the success of implementing them.

On the prevention of economic activity aimed at monopolisation and unfair competition (Article 34 of the Constitution of the Russian Federation), see the “Compliance and ethics” section (pages 168–171).

- The following were the key initiatives in the reporting period:**
- Training of employees whose responsibility includes the management of anti-corruption activities and ensuring compliance with anti-corruption principles;
 - Automation of the ethics hotline, which enabled us to respond more quickly to information about potential violations.

On securing the right to a favourable environment (Article 42 of the Constitution of the Russian Federation), see the “Rational consumption of resources” section (pages 180–189).

- The following was the key initiative in the reporting period:**
- Piloting and introducing new and innovative ways to optimise our own resource consumption and to further encourage our customers to reduce, reuse and recycle.

On charitable activities recognized as a form of voluntary social security (Article 39 of the Constitution of the Russian Federation), see the “Local communities” section (pages 204–209).

- The following were the key initiatives in the reporting period:**
- Donations and volunteer activities including city-wide food marathons.
 - The launch of a joint project by Pyaterochka retail chain, the Centre to Search for Missing People (CSMP) and the Liza Alert search-and-rescue team. The project will set up “safety zones” in retail stores across Moscow and the Moscow region to help lost elderly people and children find their way home as soon as possible.

Regulatory requirements

We fully align all of our personnel policies with Russian labour law, and we provide the appropriate rights, benefits and compensation to all employees.

* A significant part of the risks related to human rights within the Company are associated with violations of labour law.

SpartaSport

One of our key employee engagement activities is our annual SpartaSport competition. With the aim of supporting healthy lifestyles and promoting a culture of teamwork, we organise a series of events for our employees across Russia.

100

Days of sports festivals
were held all over the country
from 15 June to 1 October where
Pyaterochka stores operate



Key highlights

288,000

FROM

211

Employees

participated in TURBOSTARTs

Cities

5,084

IN

5

Athletes

Indoor football, volleyball, CrossFit, athletics and table tennis

Sports

23

Sporting events

were held as part of the TURBOSTART competitions

55,000

Viewers

of the online broadcast of the finals. And as many as 2,200 employees attended stadium events.

736

Referees

were involved in all the cities hosting TURBOSTARTs

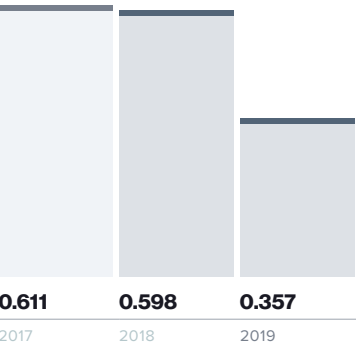
Occupational health and safety

Our Occupational Health and Safety (OHS) management system is designed to enable management at every level to implement our OHS policy, including the identification of potentially dangerous incidents in a timely manner, taking corrective measures to ensure safe working conditions and making informed management decisions. Our Company-wide corporate safety standards, as well as training, medical examinations and professional risk assessments, are compliant with Russian Federation regulations and our own OHS Policy.

We have also implemented an internal audit system to ensure that our activities comply with applicable OHS legislation and other regulations. Internal OHS audits are a means of preventing violations of employees’ labour rights. Obligatory internal oversight is carried out by the Corporate Centre’s Occupational Health and Safety Department and by the OHS service in each of the retail formats.

Over the last three years, X5’s lost time injury frequency rate (LTIFR) decreased from 0.611 to 0.357, which reflects the impact of our OHS system and a decrease in workplace injuries during the reporting period.

LTIFR among employees



Occupational health and safety strategy

Our main strategic goals in the area of occupational health and safety are to protect the health and safety of employees in the workplace, reduce injuries and eliminate accidents, and prevent occupational diseases.

- The main objectives of our OHS strategy are:
- to minimise risks to human life and health at X5 Retail Group and at third-party suppliers of goods and services;
 - to develop our leadership in OHS matters and a sustainable culture of safety among management and personnel;
 - to improve working conditions and equipment safety;
 - to constantly seek ways to further improve OHS management systems and to further reduce the number of accidents and injuries;
 - to provide training and monitor the knowledge and skills of employees on OHS matters;
 - to incentivise employees to adhere to the principles of a sustainable culture of safety and to comply with safety regulations;
 - to develop a knowledge-based environment and an OHS best practices platform.

OHS policy highlights

- X5 has adopted an OHS Policy that sets out our main priorities, which include the life, health, safety and working capacity of our personnel. The Policy declares the following priorities and social commitments:
- We comply with the laws of the Russian Federation and other regulatory acts concerning occupational health and safety. We also monitor compliance with OHS legislation and other regulatory acts. Monitoring is carried out for the purpose of establishing safe and healthy working conditions for employees and preventing workplace accidents and occupational diseases.
 - We inform every employee about any identified hazards and risks to their health and safety in the workplace. We ensure that every employee is engaged and has access to reliable information regardless of their position.
 - We are constantly improving our OHS management system to ensure that it meets the Company’s needs.

Company management is responsible for implementation of the Policy by establishing targets and objectives, as well as planning and ensuring adequate financial resources are available to achieve them.

- We have put in place KPIs for the heads of business units and the OHS service based on the following set of goals related to our OHS system:
- successful implementation of the key areas of our OHS policy and development of proposals for its improvement
 - development and implementation of programmes to improve working conditions and workplace safety
 - ensuring compliance with OHS legislation, including ensuring the safe operation of buildings and structures, equipment, instruments and technical equipment
 - ensuring safe working conditions
 - monitoring compliance with OHS requirements
 - training and testing of knowledge on OHS policies and regulations
 - accident prevention
 - protection and promotion of employee health

Our OHS service is responsible for ensuring that the targets and objectives of the OHS Policy are met. OHS management and coordination of OHS-related activities are the purview of the Corporate Centre’s Occupational Health and Safety Department in conjunction with key OHS managers in our retail formats. Each retail format has its own OHS service comprising up to fifty people, depending on the number of personnel employed by the format. All OHS service employees regularly attend seminars and training courses, and they have certificates of advanced training in the area of occupational health and safety.

OHS organisational chart



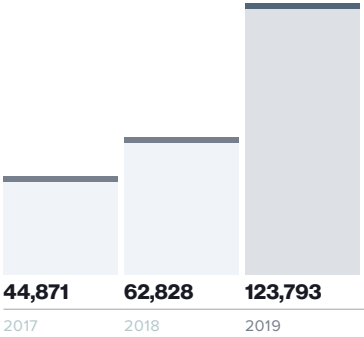
OHS activity highlights

Training

All X5 Retail Group personnel must undergo required OHS training in a timely manner. We carry out employee training on an ongoing basis, including OHS briefings and training on general OHS issues, as well as processes and procedures related to the OHS management system. All managers, specialists and staff responsible for OHS issues at the departmental level also take part in external professional development training through accredited organisations.

All specialists and line employees take part in in-house training through corporate distance-learning courses that supplement legally required training on OHS issues. Training aims to improve the qualifications of personnel in accordance with internal standards and OHS best practices. Employees responsible for building maintenance are required to participate in training on topics relevant to building use, including gas and electric safety (maintenance service employees represent 2–3% of total employees). Other employees are provided workplace safety training in line with their job responsibilities (cooks, bakers, cashiers, etc.), as well as first-aid training.

Number of employees taking part in OHS training (excluding compulsory briefings)



Managing occupational risks and preventing injuries

Our occupational risk management system consists of three main aspects: ongoing hazard identification, risk assessment and choosing the necessary means of oversight. A methodology for identifying risks was developed, and all risks have been evaluated. Registers of occupational risks have been created for every workplace, and assessments are conducted on an annual basis. Corrective measures have been developed for

identified hazards that will help reduce the risk (and practically eliminate the risk in the case of certain hazards) of work-related injuries or occupational diseases.

Our workplace risk assessment procedures have helped reduce unplanned expenses for sick leave, as well as repairs to damaged equipment as a result of accidents that would require the purchase of new equipment.

Our main objective in preventing workplace injuries is to transition from reacting to violations or incidents to preventing them. The main measures that we implement to prevent workplaces injuries are:

- conducting an objective evaluation of working conditions and a risk assessment
- providing workers employed in hazardous areas with personal protective equipment, as well as special footwear and clothing
- conducting periodic medical examinations
- conducting a workplace audit for compliance with OHS requirements and process safety
- conducting work safety briefings in accordance with legal requirements and Company regulations
- purchasing safe, state-of-the-art production equipment, as well as safety equipment
- improving professional qualifications in the area of occupational health and safety, etc.

Protecting the health of employees and customers

Our OHS management system involves carrying out preventive measures to protect the health of our employees and customers, such as the following:

- All employees who come into contact with food products in the workplace must undergo mandatory medical examinations both upon being hired and on an annual basis thereafter.
- Drivers must undergo medical examinations before operating transport and industrial vehicles.

The main purpose of medical examinations is to determine whether an employee's state of health is adequate for the work assigned to him or her, and also to identify and prevent occupational or infectious diseases in a timely manner. During medical examinations, specialists give employees recommendations concerning a variety of health issues, as well as advice about timely preventive and rehabilitative measures aimed at maintaining workers' health or rehabilitation. Vaccination campaigns are carried out during peak flu season.

Percentage of employees undergoing a medical exam

	2019
Corporate Centre	n/a
Pyaterochka	95%
Perekrestok	95%
Karusel	96%
Transport	94%
Direct import	n/a
Smart Kitchen	100%
Service centre	n/a
5Post	n/a
TOTAL	95% (excluding women on maternity leave and office employees)

Safety management for external contractors

We uphold a corporate standard that ensures a common approach to relations with our external contractors. This standard determines suppliers' responsibility for occupational health and safety. Agreements concluded for the performance of contract work must, without fail, include a declaration of issues related to the safety of the contract work to be performed, as well as requirements concerning workers' qualifications, the provision of protective equipment and other issues related to ensuring safety during contract work. All employees of contractors working at X5 Retail Group property must undergo a mandatory briefing on occupational health and safety for third-party organisations.

Investigating incidents and accidents

Our procedures for investigating and responding to workplace accidents are compliant with applicable labour laws. Major incidents resulting in serious injury or fatality or injuries to several people are reported to the state prosecutor's office and labour inspectorate. In response to every incident, the causes of injuries are ascertained and corrective measures taken.

In terms of compensation for personnel who have suffered injuries due to adverse working conditions, the following measures are taken:

- Employees, including injured persons, are insured against workplace accidents and occupational diseases through the Social Insurance Fund.
- An insurance indemnity is paid out to injured employees in case of serious accidents or to their family members in the event of a fatal accident.
- Employees injured in workplace accidents are provided with rehabilitation and/or treatment.
- We provide financial assistance in case of serious or fatal accidents.

Monitoring compliance

Constant monitoring for OHS compliance is one of the main management functions for ensuring occupational health and safety and an effective means of preventing workplace injuries and occupational diseases. OHS compliance is systematically monitored, as is the degree to which the Company's OHS targets are being fulfilled; data and the results of monitoring and investigations are kept in order to facilitate the subsequent analysis of corrective and preventive actions.

In 2018, the Russian Federation Ministry of Labour introduced control questions for inspections carried out by the State Labour Inspectorate. Based on control questions, we developed checklists for our WRS-3 system. Conducting internal checks using the checklists in the WRS-3 system enabled the Perekrestok OHS service to conduct more checks (2019: 926; 2018: 738). At the same time, the number of inspections at Pyaterochka decreased (2019: 3,078; 2018: 6,227) due to the reorganisation of the format's OHS service in retail operations (2019: 18 people; 2018: 22 people). At Karusel, the OHS service was reduced in size from three people in 2018 to two people in 2019.

The severity of violations decreased because serious technical violations were eliminated in the first year of the launch of the audit project. The remaining violations were mainly organisational in nature.

Number of inspections (external and internal)

	2017	2018	2019
Corporate Centre	n/a	n/a	10
Pyaterochka	4,122	6,227	3,078
Perekrestok	838	741	936
Karusel	94	77	90
Transport	186	343	193
Direct import	n/a	n/a	7
Smart Kitchen	n/a	n/a	21
Service centre	n/a	n/a	2
5Post	n/a	n/a	0
TOTAL	5,240	7,388	4,337
Incl. internal inspections	64	38	67
Pyaterochka	56	31	49
Perekrestok	5	3	7
Karusel	1	2	4
Transport	2	2	7

Number of identified violations

	2017	2018	2019
Corporate Centre	n/a	n/a	0
Pyaterochka	8,938	11,334	7,178
Perekrestok	5,527	6,346	8,274
Karusel	134	35	540
Transport	536	1,576	202
Direct import	n/a	n/a	26
Smart Kitchen	n/a	n/a	169
Service centre	n/a	n/a	5
5Post	n/a	n/a	0
TOTAL	15,135	19,291	16,394

Share of violations resolved within 5 days

	2017	2018	2019
Corporate Centre	n/a	n/a	n/a
Pyaterochka	88%	76%	87%
Perekrestok	61%	58%	93%
Karusel	90%	71%	87%
Transport	67%	59%	89%
Direct import	n/a	n/a	85%
Smart Kitchen	n/a	n/a	100%
Service centre	n/a	n/a	100%
5Post	n/a	n/a	n/a
TOTAL	77%	68%	90%



2019 OHS highlights:

- Our OHS management system was regularly updated in response to changes in Russian regulatory requirements.
 - Implementation of OHS measures was constantly monitored, and impact assessments were carried out on a regular basis.
 - The OHS-related qualifications of personnel improved thanks to ongoing training courses and seminars.
 - Thanks to our participation in a state programme that provides financial support for preventive measures to reduce workplace injuries, medical examinations carried out in 2019 that were financed by the Social Insurance Fund of the Russian Federation enabled us to save about RUB 20 million.
 - Internal OHS audits using electronic checklists in the WRS-3 system* continued, enabling us to reduce the number of working
- hours needed to carry out inspections, as well as to identify, in a timely manner, and rectify non-compliance issues.
 - Our compliance with OHS and sanitation standards meant that we reported zero occupational diseases in 2019.
 - Work-related injuries, health impairments, illnesses and incidents were investigated in a timely manner, as was their impact on OHS-related activities.
 - A public awareness campaign is being carried out at our retail formats with the aim of developing and supporting values of safety and health maintenance throughout employees' working life.
 - GLONASS/GPS systems have been installed on all Company vehicles. All vehicles are equipped with tachographs, which makes it
- possible to monitor drivers' compliance with requirements on work and rest periods.
 - A decrease in work-related injuries was achieved thanks to improved working conditions; at the same time, stricter disciplinary measures were imposed for violations that posed a direct threat to the life or health of employees. This was also made possible thanks to equipment upgrades, the introduction of new technologies and the addition of state-of-the-art production facilities.
 - A project was developed to automate the process of documenting OHS training through employees' personal accounts; implementation of the project is planned for 2020.
 - Working conditions for retail and logistics employees have improved as a result of the renovation of stores.

* WRS-3 is our automated OHS monitoring system that helps us to monitor workplace safety across our operations on an ongoing basis.

At Perecrestok, OHS service representatives use a tablet computer to complete OHS checklists (about 50 questions). These are uploaded to the WRS-3 system. The checklist includes issues such as training and briefings, the existence of internal rules and regulations, instructions on workplace safety, the technical condition of premises and store equipment. During an on-site inspection of a store, the OHS service representatives fill in the checklist using the WRS-3 mobile app.

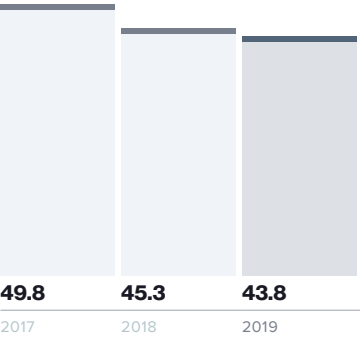
For all identified violations found based on the checklist, corrective actions are automatically generated and assigned to the Store Director. The WRS-3 system allows us to track corrections of violations and, if necessary, return them for revision. The WRS-3 system can be accessed by either the head of the OHS service or by operational, regional and other levels of management in order to track performance.

Our OHS performance

We undertake a comprehensive quantitative and qualitative analysis of workplace injuries (identifying the causes of workplace accidents). Administrative and technical measures taken to minimise risks and prevent accidents have had positive results: despite an increase in the number of properties we own and in the number of employees in 2019, injury rates decreased.

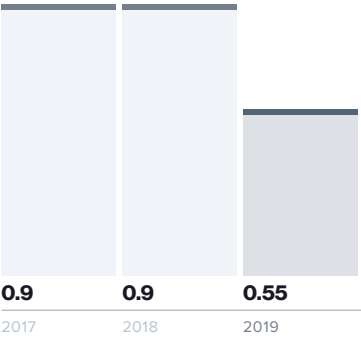
To measure the injury situation, we use the main indicators adopted in Russian legislation: the accident severity rate and the accident frequency rate. A comparative analysis of injuries showed that both rates per 1,000 employees decreased during the period from 2017 to 2019.

Accident severity rate*



* Accident severity rate: days not worked / number of accidents

Accident frequency rate**



** Accident frequency rate: number of accidents x 1,000/number of employees

-1.5 2018/19

43.8

Accident severity rate

45.3 in 2018



X5 injury statistics, number of accidents

	FATAL			SEVERE			MINOR			TOTAL		
	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Corporate Centre	n/a	n/a	0	n/a	n/a	0	n/a	n/a	0	n/a	n/a	0
Pyaterochka	0	0	2	9	13	9	107	127	100	116	140	111
Perekrestok	0	0	0	2	1	0	11	24	23	13	25	23
Karusel	0	0	0	3	1	1	35	12	16	38	13	17
Transport	0	1	0	4	2	10	17	18	37	21	21	47
Direct import	n/a	n/a	0	n/a	n/a	0	n/a	n/a	0	n/a	n/a	0
Smart Kitchen	n/a	n/a	0	n/a	n/a	0	n/a	n/a	1	n/a	n/a	1
Service centre	n/a	n/a	0	n/a	n/a	0	n/a	n/a	0	n/a	n/a	0
5Post	n/a	n/a	0	n/a	n/a	0	n/a	n/a	0	n/a	n/a	0
TOTAL	0	1	2	18	17	20	170	181	177	188	199	199

Both fatalities in 2019 were due to accidents involving vehicles. In response to all accidents, we conduct a team investigation, followed by special workplace safety training. We are also developing guidelines for safe driving and conducting driver safety training.

Local communities

X5 Retail Group has sought to contribute to the health and well-being of the communities where it operates since its creation, and we will continue to do so under our Sustainable development strategy, in line with the UN SDG 2 (Zero Hunger) and 3 (Good Health and Wellbeing). The community-oriented projects that we implement have been developed based on our understanding of priority areas where we are best able to make a meaningful contribution to the general health and well-being of local communities.

Our Charity Policy defines the general principles and rules of our charity activities and describes the priority areas for our charitable giving, as well as the roles and responsibilities of employees involved in our charity programmes. This policy applies to all divisions of X5 Retail Group.

Our goal is to contribute to the implementation of national programmes for socio-economic development, poverty reduction and support for socially vulnerable groups of the population. We are aware of the impact of our activities on society and voluntarily provide assistance to the population in the areas where X5 Retail Group operates.

We have identified the following priority areas in the field of charity:

- food assistance;
- care for children;
- support for people with disabilities.

We have engaged the following partners, with whom we implement our charitable programmes:

- Foodbank Rus for providing food assistance;
- The Life Line Foundation to assist with providing care for children;
- the Unity deaf-blind support foundation to provide support for people with disabilities.

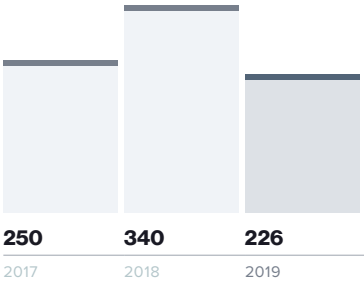
We do not donate money and do not provide other forms of assistance to organisations that are not charities (including commercial organisations, political parties, movements and associations) or for events organised by non-charitable organisations. We also do not provide direct financial assistance to individuals.

We aim to provide transparent access to information about our charitable activities and to inform citizens about how our expectations and applicable legal requirements are integrated into our charitable activities. We aim to adhere to the following rules:

- to publish information on our charitable activities as part of the sustainability section of our annual report;
- to monitor the use of funds on a regular basis;
- to monitor and analyse the requests of NGOs and beneficiaries on a regular basis;
- to conduct outreach campaigns through the media.



Number of employees taking part in social projects (volunteer activities)



The fluctuation in employee participation in social projects was due to the fact that the majority of participants are employees who run in a marathon, which is a paid event that has strict medical requirements.

Number of people receiving support through X5 social initiatives

	2017	2018	2019
Basket of Kindness *	ca. 24 ths	ca. 40 ths	ca. 57 ths
Life Line Foundation	107	34	62
Unity Deaf-Blind Support Foundation	1,648	1,849	2,023
Liza Alert	—	—	271

* Direct beneficiaries including donations in cooperation with X5 suppliers.

Donations to initiatives to help those in need, RUB million

	2017	2018	2019
Total donations	37.9	63.5	70.0
incl. in-kind donations	—	0.8	2.0

Community investments account for 98% of donations. These are long-term strategic partnerships with community organisations and charity funds that aim to address pressing social issues.

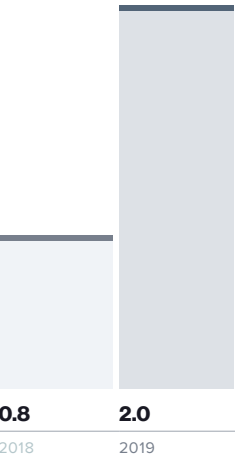
Food assistance



Charity fairs for employees

Value of grocery products donated through charitable programmes

RUB MILLION



Food banks

In August 2015, X5 and Foodbank Rus, a nationwide charity organisation and Russia's first food bank, which provides food and non-food aid to socially vulnerable groups, launched the Basket of Kindness project to collect and donate food aid to those in need. Some 1,560 stores participated in the project in 2019, and a total of 173 tonnes of food was collected and given to the elderly, large families and the disabled. More than 1,500 volunteers took part in the project, and more than 57,000 people in need received assistance in 2019.

Citywide food marathons

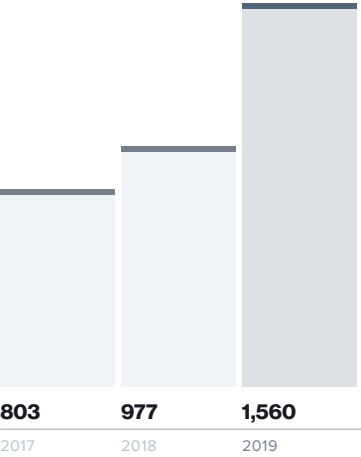
In 2019, as part of the Basket of Kindness programme, X5 and Foodbank Rus held city-wide food marathons in four metropolitan areas: Rostov-on-Don, Moscow (twice), Novosibirsk and Samara (online).

The first event, held on 2 March in Rostov-on-Don, collected more than 5 tonnes of groceries. On 18 May, Moscow took over the "baton of kindness", with residents donating around 20 tonnes of food at Perekrestok stores. On 19 October, a food marathon was held in Novosibirsk, where more than 3 tonnes of food was collected. On 29 November, an event timed to coincide with New Year's and Christmas celebrations at Pyaterochka stores in Moscow brought in about 43 tonnes of food aid. In Samara, the marathon was organised online on the official website of the Basket of Kindness project, корзинадоброты.рф. As a result of the event, which ran from 1 August to 1 October, pensioners in need of assistance received 1,500 grocery packages (9.2 tonnes of food).



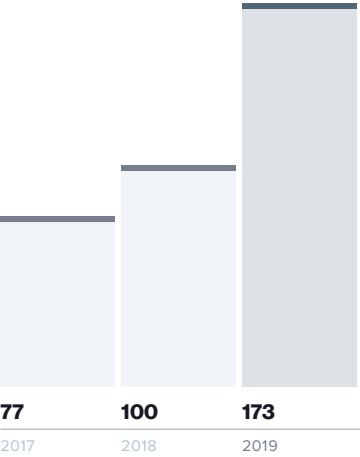
Basket of Kindness results

Number of participating stores



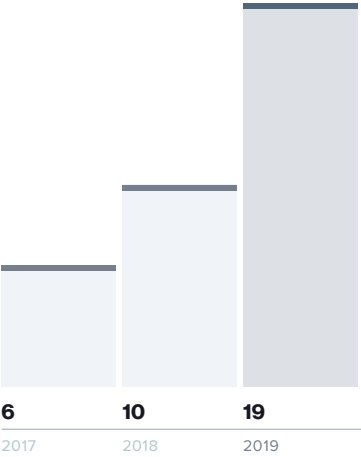
Amount of collected groceries

TONNES



Number of families who received support

THS



Supporting overall well-being



Life Line Foundation

As long-standing partners of the Life Line Foundation, which runs initiatives to support children in need throughout Russia, is aimed at expanding outreach and encouraging engagement of both our employees and customers.

Donation boxes

Special boxes are placed in our stores for donations to the Life Line Foundation to help children with serious illnesses. In 2019, this initiative collected RUB 14.6 million at our stores, which enabled 43 children to receive the treatment they needed.

Candies of Kindness

Through this initiative, shoppers at all Pyaterochka stores can purchase Candies of Kindness at checkout counters. RUB 5 from the sale of every candy helps cover the cost of operations for those under the care of the Life Line Foundation. In 2019, the initiative raised more than RUB 8.9 million for the treatment of 11 seriously ill children and for the purchase of equipment for the Krasnoyarsk Children's Clinical Hospital No 1.

Run for Life charity marathon

Every year, X5 employees take part in the Run for Life charity marathon, which is organised by the Life Line Foundation for the treatment of seriously ill children. In 2019, 226 Company employees, along with their children, took part in the marathon. The RUB 2.7 million raised was donated to the Life Line Foundation for charitable purposes.

Points for Children programme

For three years now, participants in the Perekrestok Club loyalty programme have been helping seriously ill children by donating points accumulated on their bonus cards to be used for charitable purposes. Perekrestok converts the donated points into cash at a rate of 1 RUB for every 10 points and then doubles the total amount. In 2019, RUB 1.2 million was donated to the Life Line Foundation through this initiative, which allowed three children to receive highly specialised medical care.

Good Waffles initiative

Since 2016, a charity initiative called Good Waffles has been carried out at all Perekrestok supermarkets, with RUB 1 from the sale of every package of Bonté waffles donated to the Life Line Foundation. In 2019, this initiative raised around RUB 1 million, which covered the costs of operations for five children.

Food support for quiet homes

Since January 2017, the Company has been making weekly grocery deliveries to residential institutions for people with visual and hearing impairments. Products are provided to three institutions near Pyaterochka stores in Troitsk and in Lyubertsy. In 2019, nearly RUB 2 million worth of groceries was provided.



The Centre for Missing Persons (CMP) and the Liza Alert search-and-rescue team

Safe spaces

Every Pyaterochka store has a safe space marked by distinctive signage in the form of an orange geolocation pin, which acts as a reference point for anyone who is lost or disoriented. Anyone in such a situation can enter a Pyaterochka store and make contact with a store employee or wait until help is offered. Then, the store manager calls the CMP hotline, where an operator will, depending on the situation, either call an ambulance or the police or send a Liza Alert representative to the proximity store. This joint initiative was launched in March 2019; in nine months, 271 people from 77 communities were given assistance returning home, more than 20 of whom were in a life-threatening situation. For Rescue Worker Day on 27 December, X5 Retail Group donated 400 uniforms for search-and-rescue workers, as well as 27 Pyaterochka cards with points already accumulated. The cards will help provide food for rescue teams.



World Wildlife Fund Russia (WWF)

“Buy a toy animal, help a real one”

This initiative collected RUB 1.5 million for implementation of the project “Let’s Create and Preserve a Russian National Forest Together”, which aims to designate the first protected forest zone in the north-western part of Russia. As part of a donation drive, RUB 5 from each stuffed toy purchased at Karusel hypermarkets from 24 June to 27 October was donated to the WWF. As a result of the WWF project we supported, a precious forest area covering more than 100,000 hectares in the Leshukonsky district of the Arkhangelsk region will be designated as a national forest by the end of 2020. Northern taiga forests in the north-western part of Russia are of great importance for regulating the climate, maintaining water conditions over large areas, and also for preserving rare animal species and biological diversity in general.

Corporate Governance

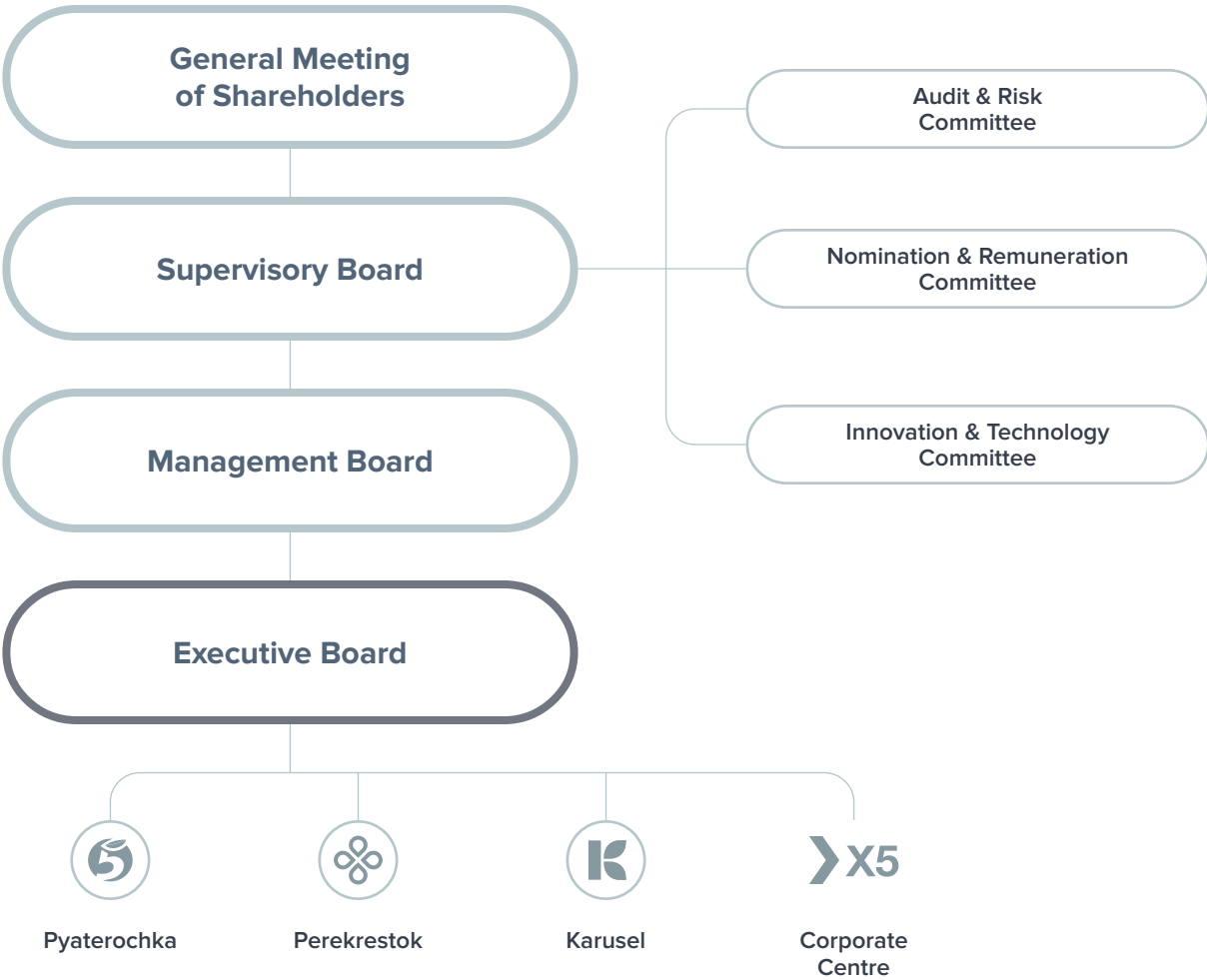
X5 Retail Group N.V. is a public limited-liability company incorporated under the laws of the Netherlands, with global depositary receipts listed on the London Stock Exchange. The Company is required to comply with, among other regulations, the Dutch Corporate Governance Code (the “Code”).

THE FULL TEXT OF THE CODE CAN BE VIEWED ON X5'S WEBSITE AT WWW.X5.RU

In accordance with the Code, a broad outline of the Company’s corporate governance structure is presented in this section, including any deviations from the Code’s principles and best practices. X5 aspires to high standards of corporate governance and is committed to a corporate governance structure that best supports its business, meets the needs of its stakeholders, and that is in compliance with applicable rules and regulations.

Governance structure

The Company has a two-tier board structure, comprising a Management Board and a Supervisory Board. The Management Board and the Supervisory Board are independent of one another and accountable to the General Meeting of Shareholders. The overview below shows the governance structure of X5.



Management Board

The Management Board has ultimate responsibility for the overall management of the Company and oversees all corporate governance activities. It is accountable for the Company's pursuit and achievement of corporate goals and objectives, its strategies and policies. The Management Board is responsible for complying with all relevant legislation and regulations, for managing the risks associated with the Company's activities and for financing and external communication.

In managing X5's general affairs and its day-to-day operations, the Management Board is supported by the Executive Board, which was established to provide for a leadership team at the level of the Company's operating subsidiaries in Russia in order to best support X5's strategy and businesses at the local operating level.

The current members of the statutory Management Board and the Executive Board (the broader management team that handles day-to-day strategic, operational and financial issues), including their biographies, are presented on pages 64–69 and pages 232–233. In order to strengthen the Dutch-based operational requirements of the statutory Management Board, Mr. Quinten Peer was appointed as Chief Operating Officer at the level of the Dutch parent company by the 2019 Annual General Meeting of Shareholders.

Composition and reappointment schedule of the Management Board

NAME	YEAR OF BIRTH	YEAR OF FIRST APPOINTMENT	END OF CURRENT TERM OF APPOINTMENT
Igor Shekhterman	1970	2015	2021
Frank Lhoëst	1962	2007	2023
Quinten Peer	1974	2019	2023

Supervisory Board

The Supervisory Board is responsible for supervising and advising the Management Board and overseeing the general course of affairs, strategy and operational performance of X5 and its businesses. It ensures that external experience and knowledge are embedded in the Company's operations. In performing its duties, the Supervisory Board takes into account the relevant interests of the Company and all its stakeholders, and, to that end, considers all appropriate interests associated with the Company and its affiliated businesses, including corporate responsibility issues that are relevant to the Company. Major business decisions require the approval of the Supervisory Board. The Supervisory Board is responsible for monitoring and assessing its own performance.

The Supervisory Board determines the number of its members. The nine current members, including their biographies, are presented on pages 232–233.

The Supervisory Board has prepared a profile of its size and composition, taking account of the nature of the Company's business and its activities and the desired expertise and background of the members of the Supervisory Board. The Supervisory Board evaluates its profile and composition annually. In 2019, the Supervisory Board continued to strengthen its expertise in the area of technical and commercial innovation through the nomination of Alexander Torbakhov, who was appointed as an independent member of the Supervisory Board by the 2019 Annual General Meeting of Shareholders. For further details, please refer to the Supervisory Board report on pages 234–242.

Supervisory Board members are appointed for a period of up to four years and may be re-elected, whereby the total term of office may not exceed 12 years. The Supervisory Board has prepared a retirement and reappointment schedule to, as far as possible, prevent simultaneous reappointments. The Supervisory Board's profile and rotation plan can be viewed on the Company's website.

Composition and reappointment schedule of the Supervisory Board

NAME	YEAR OF BIRTH	YEAR OF FIRST APPOINTMENT	YEAR OF POSSIBLE REAPPOINTMENT
Stephan DuCharme (Chairman) ¹	1964	2015	2021
Mikhail Fridman ²	1964	2006	2021
Geoff King	1965	2015	2023
Peter Demchenkov	1973	2015	2023
Mikhail Kuchment	1973	2015	2022
Andrei Elinson	1979	2016	2020
Karl-Heinz Holland	1967	2018	2022
Nadia Shouraboura	1970	2018	2022
Alexander Torbakhov ³	1971	2019	2023

- ¹ Stephan DuCharme previously served on the Supervisory Board from 2008 until 2012.
- ² In accordance with the Supervisory Board's Rules of Procedure, a Supervisory Board member who directly or indirectly holds at least 10% of the shares in the issued share capital of the Company may hold office for more than 12 years and is eligible for reappointment after that term (see "Compliance with Dutch Corporate Governance Code" in this report).
- ³ Alexander Torbakhov was appointed on 10 May 2019.

Committees of the Supervisory Board

The Supervisory Board currently has three standing committees: the Audit and Risk Committee, the Nomination and Remuneration Committee and the Innovation and Technology Committee. The members of each committee are appointed by the Supervisory Board and from among its members. Each committee has a charter describing its role and responsibilities and the manner in which it discharges its duties and reports to the full Supervisory Board. These charters are included in the Rules of Procedure of the Supervisory Board, which can be viewed on X5's website. The Innovation and Technology Committee was established in January 2019 to strengthen the focus of the Supervisory Board on technical and commercial innovation. The Related-Party Committee was dissolved as of 1 January 2020; its responsibilities were integrated into the overall remit of the Audit and Risk Committee.

Composition of the Supervisory Board Committees

NAME	AUDIT AND RISK COMMITTEE	NOMINATION AND REMUNERATION COMMITTEE	INNOVATION AND TECHNOLOGY COMMITTEE
Stephan DuCharme		Member	
Mikhail Fridman			
Geoff King	Chairman	Member	
Peter Demchenkov	Member	Chairman	
Mikhail Kuchment			Member
Andrei Elinson	Member	Member	
Karl-Heinz Holland			
Nadia Shouraboura			Member
Alexander Torbakhov	Member		Chairman

Audit and Risk Committee

The Audit and Risk Committee assists the Supervisory Board in overseeing the integrity of X5’s financial statements, system of internal business controls and risk management, financing and finance-related strategies, taxation, the Company’s compliance with legal and regulatory requirements, as well as the qualifications, performance and independence of the external auditor and the performance of the internal audit function. Furthermore, the Audit and Risk Committee advises the Supervisory Board on handling and deciding on reported (potential) conflicts of interest involving members of the Supervisory Board and members of the Management Board.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee recommends the remuneration policy for the Management Board to be adopted by the General Meeting of Shareholders, prepares proposals for the Supervisory Board for remuneration of the individual members of the Management Board in line with the remuneration policy and advises the Management Board on the level and structure of compensation for other senior personnel. The Nomination and Remuneration Committee also advises in respect of the selection and appointment of members of the Supervisory Board, the Management Board and the Executive Board.

Innovation and Technology Committee

The Innovation and Technology Committee is responsible for reviewing and making recommendations to the Supervisory Board on issues relating to the Company’s digital strategy, innovation and technology, which are among X5’s key strategic priorities.

Diversity

The Supervisory Board operates a Leadership Diversity Policy that aims for a diverse composition of both the Management Board and the Supervisory Board in particular areas of relevance for X5. This includes diversity of experience, nationality and background. Appointments to the Management Board and Supervisory Board are evaluated against the relevant profile; the existing balance of skills, knowledge and experience on the respective board; and the need for the relevant board to be prepared for disruption and change. Management Board and Supervisory Board members are prompted to be mindful of diversity, inclusiveness and meritocracy considerations when examining and proposing nominations to the Management Board and Supervisory Board. In the selection and appointment of new Management Board or Supervisory Board members, the Supervisory Board will consider a diverse range of candidates. This will also include diversity of gender and age so that, when the final appointment is made, the Supervisory Board can be confident that the most effective candidate has been selected.

Each year, the Supervisory Board conducts an evaluation of its functioning and the functioning of the Management Board. In this context, the Supervisory Board gives careful consideration to the diversity of its own composition, as well as that of the Management Board, so as to be effective in performing its role. The results of the 2019 evaluation of the Supervisory Board and the Management Board is described in the Supervisory Board Report on pages 234–242. In 2019, following the evaluation of the Supervisory Board in the preceding year, Alexander Torbakhov was appointed as a Supervisory Board member to strengthen the Board’s expertise in the area of technical and commercial innovation.

While the Management and Supervisory Boards are currently not balanced with regard to gender, X5 recognises the benefits of gender diversity, and of the importance that is attached to achieving this. We feel that gender is only one part of diversity and future members of the Management Board and Supervisory Board will continue to be selected on the basis of specific experience, background, skills, knowledge and insights. X5 recognises the importance of diversity, including gender, at all levels of the Group and has a very strong track record of developing a critical executive layer of female business leaders. Across all of the Group’s operations, specific diversity targets are taken into account in recruitment, talent development, appointments, retention of employees, mentoring and coaching programmes, succession planning, training and development.

Appointment, suspension and dismissal

The General Meeting of Shareholders appoints the members of the Management and Supervisory Board from a binding nomination made by the Supervisory Board. The recommended candidate is appointed by the General Meeting of Shareholders unless the nomination is deprived of its binding character by a qualified majority vote of at least two-thirds of the votes cast, representing more than one-half of the issued share capital of the Company.

Members of the Supervisory Board serve for a maximum term of four years from the date of their appointment or a shorter period if determined upon their appointment by the General Meeting of Shareholders or as per the Supervisory Board’s rotation schedule. A Supervisory Board member can be reappointed after their first term of four years for one additional term of four years, followed by two additional terms of two years. A Supervisory Board member may not serve more than 12 years. A Supervisory Board member who directly or indirectly holds at least 10% of the shares in the issued share capital of the Company may hold office for more than 12 years and is eligible for reappointment after that term (see “Compliance with Dutch Corporate Governance Code” in this report).

Members of the Management Board are also elected for a period of four years. Neither the Articles of Association nor the Code limits the total term of office for Management Board members.

Each member of the Supervisory Board and Management Board may, at any time, be dismissed or suspended by the General Meeting of Shareholders. A member of the Management Board may, at any time, be suspended by the Supervisory Board. Such suspension may be discontinued by the General Meeting of Shareholders at any time.

Remuneration

An amendment of the current Remuneration Policy for the Management Board and Supervisory Board is submitted for approval at the 2020 Annual General Meeting of Shareholders. The main purpose of the amendment is to align the Remuneration Policies with the Dutch Act implementing the revised EU Shareholders Rights Directive, as well as other corporate legal updates and current best practices.

In line with the proposed remuneration policy as well as the current remuneration policy, the remuneration of the individual members of the Management Board will be decided by the Supervisory Board upon the recommendation of its Nomination and Remuneration Committee. The remuneration of the members of the Supervisory Board is determined by the General Meeting of Shareholders. The proposed remuneration policies can be found on the Company’s website.

Reporting on conflicts of interest

A member of the Management Board or Supervisory Board is required to immediately report and provide all relevant information to the Chairman of the Supervisory Board (and to the other members of the Management Board if it concerns a member of that board) on any conflict of interest, or potential conflict of interest, that they may have with the Company and that may be of material significance to them or the Company.

If a member of the Supervisory Board or a member of the Management Board has a conflict of interest with the Company, that member may not participate in the discussions or decision-making process on subjects or transactions relating to the conflict of interest. A decision taken by X5 to enter into a transaction involving a conflict of interest with a member of the Management Board or a member of the Supervisory Board that is of material significance to them or the Company requires the approval of the Supervisory Board. The Audit and Risk Committee advises the Supervisory Board on handling and deciding on (potential) conflicts of interest and prepares resolutions of the Supervisory Board in relation thereto.

Shareholders and their rights

General Meeting of Shareholders

X5 Retail Group N.V. is required to hold a General Meeting of Shareholders within six months after the end of the financial year in order to, among other things, adopt the financial statements, decide on any proposal concerning profit allocation and discharge the members of the Management Board and Supervisory Board from their responsibility for the performance of their respective duties for the previous financial year.

Extraordinary meetings are held as often as the Management Board or the Supervisory Board deems necessary. In addition, shareholders and holders of global depositary receipts (GDRs) jointly representing 10% of the outstanding share capital may ask the Management Board and the Supervisory Board to hold a General Meeting of Shareholders, stating their proposed agenda in detail when doing so.

The powers of the General Meeting of Shareholders are specified in the Articles of Association. Apart from the decisions taken at the Annual General Meeting of Shareholders, the main powers of the General Meeting of Shareholders are to appoint (subject to the Supervisory Board’s right to make binding nominations), suspend and dismiss members of the Management Board and Supervisory Board; to appoint the external auditor; to adopt amendments to the Articles of Association; to issue shares and grant subscriptions for shares; to authorise the Management Board or the Supervisory Board to issue shares and grant subscriptions for shares; to authorise the Management Board or the Supervisory Board to restrict or exclude pre-emptive rights of shareholders upon the issuance of shares; to authorise the Management Board to repurchase outstanding shares in the Company; to adopt the remuneration policy of the Management Board; to determine the remuneration of members of the Supervisory Board; and to merge, demerge or dissolve the Company.

The notice for a General Meeting of Shareholders needs to be published no later than 42 days prior to the day of the meeting. The mandatory record date, establishing which shareholders are entitled to attend and vote at the General Meeting of Shareholders, is set at least 28 days prior to the date of the meeting.

Shareholders and/or holders of GDRs are entitled to propose items for the agenda of the annual General Meeting of Shareholders provided that they hold at least 1% of the issued share capital, or the shares or GDRs that they hold represent a market value of at least EUR 50 million. Proposals for agenda items for the annual General Meeting of Shareholders must be submitted at least 60 days prior to the date of the meeting.

All shareholders and other persons who, pursuant to Dutch law or the Articles of Association, are entitled to attend and/or vote at a General Meeting of Shareholders are entitled to address the General Meeting of Shareholders. X5 uses the Bank of New York Mellon, the depositary for X5’s GDR facility (the “Depositary”), to enable GDR holders to exercise their voting rights represented by the shares underlying the GDRs. As described in the “Terms and Conditions of the Global Depositary Receipts”, holders of GDRs may instruct the Depositary with regard to the exercise of the voting rights connected to the shares underlying their GDRs. Alternatively, upon request of the holders of such depositary receipts, the Depositary will grant a proxy to such holders who wish to vote in person at a General Meeting of Shareholders. Persons who hold a written proxy may represent shareholders at a General Meeting of Shareholders. The written proxy must be duly executed and legalised in accordance with the applicable laws and may be submitted electronically.

Voting rights

Each share confers the right to cast one vote at the General Meeting of Shareholders. There are no restrictions, either under Dutch law or in the Articles of Association, on the right of non-residents of the Netherlands or foreign owners to hold shares or to vote, other than those also imposed on residents of the Netherlands. Resolutions of the General Meeting of Shareholders are passed by a simple majority of the votes cast in a meeting where more than 25% of the issued share capital is present or represented. If 25% or less of the issued share capital is present or represented, a second meeting should be convened no later than four weeks following the first meeting. At the second meeting, no quorum requirement will apply. However, the General Meeting of Shareholders can only resolve on (i) a merger or demerger, (ii) the authorisation to limit or exclude pre-emptive rights and (iii) cancellation of shares with a majority of at least two-thirds of the votes cast if less than 50% of the issued capital is represented in that meeting.

Dividend rights

Any distribution of profits to shareholders will be made after the adoption by the General Meeting of Shareholders of the annual accounts of the Company from which it appears that such distribution is permitted. The Company may only declare profit distributions insofar as its net assets exceed the sum of its issued share capital plus any legal reserves required to be maintained pursuant to Dutch law. A loss may only be applied against such reserves to the extent permitted by Dutch law. On a proposal of the Supervisory Board, the General Meeting of Shareholders will determine which part of the profits will be added to the reserves and the allocation of the remaining profits.

On a proposal of the Supervisory Board, the General Meeting of Shareholders may resolve to pay an interim dividend insofar as X5’s net assets exceed the sum of its issued share capital and the reserves that are required to be maintained pursuant to Dutch law, as evidenced by an interim financial statement prepared and signed by all the members of the Management Board. In addition, upon a proposal of the Supervisory Board, the General Meeting of Shareholders may resolve to make distributions to the shareholders out of any reserves that need not be maintained pursuant to Dutch law.

In accordance with the Company’s dividend policy approved in 2017, the Company intends to pay an annual dividend that will be stable or will grow over time, with a target payout ratio of at least 25% of the IFRS full-year consolidated net profit, provided that the Company’s net debt/EBITDA ratio is below 2.0x. Dividends and other distributions that have not been claimed within five years after the date on which they became due and payable revert to the Company.

Detailed information on the dividend policy and dividend history is available on the Company’s website.

Significant ownership of voting shares

According to the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht), any person or legal entity who, directly or indirectly, acquires or disposes of an interest in X5’s capital and/or voting rights must immediately give written notice to the Netherlands Authority for Financial Markets (AFM) if the acquisition or disposal causes the percentage of outstanding capital interest and/or voting rights held by that person or legal entity to reach, exceed or fall below any of the following thresholds: 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%.

The following table lists the shareholders on record on 29 February 2019 in the AFM’s public register that hold an interest of 3% or more in the share capital of the Company:

SHAREHOLDER	DATE OF DISCLOSURE	CAPITAL INTEREST ¹	VOTING RIGHTS ¹
CTF Holdings Ltd.	2 August 2007	48.41%	48.41%
Axon Trust	22 December 2009	11.43%	11.43%

¹ In accordance with the filing requirements, the percentages shown include both direct and indirect capital interests and voting rights. The percentages may differ from the actual shareholders’ interests due to the fact that changes within the thresholds mentioned above do not require a notification to the AFM. Further details can be obtained at www.afm.nl.

Securities owned by Board members

The members of the Management Board and Supervisory Board and X5’s other senior management are subject to the Company’s Inside Information and Dealing Code. This Code contains rules of conduct to prevent trading in X5’s GDRs of shares or other financial instruments when holding inside information or during blackout periods when trading is not permitted (for instance, prior to the publication of quarterly financial results). The Inside Information and Dealing Code can be viewed on the Company’s website.

Under the Inside Information and Dealing Code, members of the Management Board and Supervisory Board must notify the AFM of X5 securities and voting rights at their disposal. These positions can be viewed in the AFM’s public register.

Repurchase by the Company of its own shares

The Company may acquire fully paid shares, or GDRs thereof, in its capital for a consideration only following authorisation by the General Meeting of Shareholders and subject to certain provisions of Dutch law and the Company’s Articles of Association, if:

- Shareholders’ equity minus the purchase price is not less than the sum of X5’s issued and fully paid-in capital plus any reserves required to be maintained by Dutch law; and
- X5 and its subsidiaries would not, as a result, hold shares or GDRs thereof with an aggregate nominal value exceeding half of the issued share capital.

In 2019, the Management Board was authorised to acquire up to 10% of the shares or GDRs thereof. This authorisation is valid through 10 November 2020. In addition, the Supervisory Board resolved that, in case a purchase of shares or depositary receipts thereof by X5 would lead to X5 holding more than 5% of the shares or GDRs thereof, the Management Board would require the Supervisory Board’s prior approval for such purchase.

Authorisation by the General Meeting of Shareholders is not required if X5’s own shares are acquired for the purpose of transferring those shares to X5 employees pursuant to any arrangements applicable to such employees.

Shares or GDRs thereof held by X5 or a subsidiary may not be voted on and are not taken into account for determining whether quorum requirements, if any, are satisfied.

In order to fulfil the Company’s obligations under the Restricted Stock Unit Plan, the Company from time to time acquires GDRs under a restricted buyback programme, pursuant to an authorisation of the General Meeting of Shareholders in accordance with Article 9 of the Company’s Articles of Association. In March 2019, the Company repurchased 46,875 GDRs under the authorisation of the General Meeting of Shareholders held on 10 May 2018.

Issue of new shares and pre-emptive rights

Shares in X5 may be issued, and rights to subscribe for shares may be granted, pursuant to a resolution of the General Meeting of Shareholders or another X5 corporate body to which the General Meeting of Shareholders has delegated such authority for a time not exceeding five years. In 2019, the General Meeting of Shareholders approved a delegation of this authority to the Supervisory Board relating to the issuance and/or granting of rights to acquire up to 6,789,322 shares (10% of the issued share capital) through 10 November 2020.

Upon the issue of new shares, holders of X5’s shares have a pre-emptive right to subscribe for shares in proportion to the aggregate amount of their existing holdings of X5’s shares. According to the Company’s Articles of Association, this pre-emptive right does not apply to any issue of shares to employees of X5 or a Group company. Pre-emptive rights may be restricted or excluded pursuant to a resolution of the General Meeting of Shareholders or

another corporate body of X5 to which the General Meeting of Shareholders has delegated such authority for a time not exceeding five years. The General Meeting of Shareholders has delegated the authority to restrict or exclude the pre-emptive rights of shareholders upon the issue of shares and/or the granting of rights to subscribe for shares to the Supervisory Board through 10 November 2020.

Articles of Association

X5’s Articles of Association contain rules on the Company’s organisation and corporate governance.

Amending the Company’s Articles of Association requires a resolution of the General Meeting of Shareholders. A proposal to amend the Articles of Association, including the text of the proposed amendment, must be made available to the holders of shares and GDRs for inspection at the offices of X5 as of the date of the notice convening the meeting of the General Meeting of Shareholders until the end of the meeting of the General Meeting of Shareholders at which the proposed amendment is voted on.

The current text of the Articles of Association is available on the Company’s website.

Anti-takeover measures and change-of-control provisions

According to provision 4.2.6 of the Code, the Company is required to provide a survey of its actual or potential anti-takeover measures and to indicate in what circumstances it is expected that they may be issued.

No special rights of control, as referred to in Article 10 of the EU Directive on takeover bids, are attached to any share or GDR in X5.

There are no important agreements to which the Company is a party and that will automatically come into force or be amended or terminated under the condition of a change of control over the Company as a result of a public offer. However, the contractual conditions of most of X5’s important financing agreements and notes issued (potentially) entitle the banks and noteholders, respectively, to claim early repayment of the amounts borrowed by the Company in the situation of a change of control over the Company (as specified in the respective agreement).

Auditor

The General Meeting of Shareholders appoints the Company’s external auditor. The Audit and Risk Committee makes a recommendation to the Supervisory Board with respect to the external auditor to be proposed for appointment or reappointment by the General Meeting of Shareholders. In addition, the Audit and Risk Committee evaluates and, where appropriate, recommends the replacement of the external auditor. The Audit and Risk Committee also pre-approves the fees for audit and permitted non-audit services to be performed by the external auditor. The Audit and Risk Committee will not approve the engagement of an external auditor to render non-audit services prohibited by applicable laws and regulations or that would compromise the independence of the auditor. Specific rules relating to non-audit work performed by the external auditor are included in X5’s “Rules on External Auditor Independence and Selection”. This document is available on the Company’s website.

On 10 May 2019, the General Meeting of Shareholders appointed Ernst & Young Accountants LLP as external auditor for the 2019 financial year.

Compliance with the Dutch Corporate Governance Code

X5 applies the relevant principles and best practices of the Code in the manner as described in this Corporate Governance Report. Committed to a corporate governance structure that best serves the interests of all stakeholders, including shareholders, X5 continues to seek ways to improve and enhance its corporate governance standards in line with international best practices. X5 generally adheres to the Code but does not comply with the following recommendations:

2.1.7/2.1.8:

Independence of the Supervisory Board and its members

In accordance with best practice provision 2.1.7, at most one Supervisory Board member may represent a shareholder who directly or indirectly holds more than 10% of the shares in the Company.

Both Mikhail Fridman and Andrei Elinson are related to companies that are owned or controlled by companies that ultimately hold 10% or more of the shares in the Company. Stephan DuCharme was a member of the Management Board immediately prior to his appointment to the Supervisory Board in November 2015. These members of the Supervisory Board are, therefore, not considered to be independent within the meaning of the Code.

X5 believes that the non-independent members of the Supervisory Board have in-depth knowledge of the geographic market, of business in general and of retail specifically, as well as a relevant track record in the markets in which X5 operates. This is of particular advantage to X5 and its shareholders. Meanwhile, the Supervisory Board took a further step in improving the ratio of independent to non-independent board members in 2019 by appointing an additional independent member to the Supervisory Board.

2.1.9:

Independence of the Chairman of the Supervisory Board

In 2015, Stephan DuCharme stepped down as CEO and was appointed as Chairman of the Supervisory Board. Having carefully considered the interests of the Company and its shareholders, the Supervisory Board took the view that these interests are best served by retaining Stephan’s experience and leadership for X5 in a renewed capacity as Chairman of the Supervisory Board. This offers shareholders the greatest continuity and ensures that the Chairman entrusted with X5’s progress has a proven track record, as well as the confidence of critical stakeholder groups and investors.

2.2.2:

Appointment and reappointment periods of Supervisory Board members

Mikhail Fridman is the founder and chairman of the Alfa Group Consortium; he was appointed as a member of the Supervisory Board in 2006. In 2017, he was reappointed for a fourth term, thus exceeding the maximum of 12 years prescribed by the Code.

X5 believes that long-term value creation stands to benefit from committed shareholders, and that the interests of Supervisory Board members largely coincide with those of the Company. Supervisory Board members generally perform their duties for a prolonged period of time, which fits in well with long-term value creation for the Company.

2.3.2:

Supervisory Board committees

The Code states: “If the Supervisory Board consists of more than four members, it should designate [...] a Remuneration Committee and a Selection and Appointment Committee.” As it is felt that issues related to selection, appointment and remuneration are inter-linked, the Supervisory Board decided that all these activities should be dealt with by one committee: the Nomination and Remuneration Committee.

3.3.2:

Award of shares and/or rights to shares to members of the Supervisory Board

The Code prescribes that Supervisory Board members may not be awarded remuneration in the form of shares and/or rights to shares. Members of the Supervisory Board of the Company are entitled to restricted stock units (RSUs). The number of annual RSU awards equals 100% of a Supervisory Board member’s fixed base fee in the year of the award, divided by the average market value of an X5 GDR on the relevant award date. RSU awards to members of the Supervisory Board are not subject to performance criteria.

X5 acknowledges that the award of shares to members of the Supervisory Board constitutes a deviation from the Code. However, in order to attract and reward experienced individuals with a track record that is of specific relevance to the Company, X5 believes it is necessary to allow members of the Supervisory Board to participate in the Company’s equity-based remuneration plan. This structure aligns the interests of Supervisory Board members with those of shareholders and strengthens their commitment to, and confidence in, the future of the Company. Equity-based awards given to members of the Supervisory Board are not subject to performance criteria and are determined by the General Meeting of Shareholders.

How we manage risk

Our Management Board, supported by the Executive Board and the risk management team, is responsible for designing, implementing and operating an adequately functioning risk management system for the Company.

The aim of this system is to ensure that the extent to which the Company’s strategic and operational objectives are being achieved is understood, that the Company’s reporting is reliable and that the Company complies with relevant laws and regulation.

Risk management

During 2019, the Management Board, supported by the Executive Board, continued to pay special attention to strengthening the design and effectiveness of the risk management and internal control system, ensuring that:

- a comprehensive review of both internal and external risks is carried out at least annually;
- risk appetite is reviewed and reconfirmed, and quantitative risk bounds are added to qualitative risk appetite;
- risk impact is quantified in addition to its qualitative assessment;
- risks of both our strategic and short-term objectives are assessed;
- desired risk responses and risk mitigating activities are put in place;
- our reporting is accurate and reliable; and
- we comply with relevant laws and regulations.

Under the authority delegated by the Management Board, management teams at all levels are responsible for identifying, managing and monitoring relevant risks. The central risk assessment team, supported by the internal control team, facilitates a Company-wide view of risk-relevant issues, helps to develop risk management activities in both business and functional divisions and ensures that the Management Board is continuously and promptly informed of important risk management developments.

During the annual strategy review and budgeting process, management reassessed X5’s risks and developed action plans to mitigate risks and allocate appropriate resources for risk mitigation. The results of performing risk mitigation actions are regularly monitored and are reported to the Audit and Risk Committee quarterly. Risk-appetite boundaries are set through X5’s Strategy, Code of Business Conduct and Ethics, authority matrixes, budgets and other policies. X5’s risk appetite differs by risk areas:

The table below shows the X5 risk-appetite scale used for risk-appetite calibration:

	Averse	Minimal	Cautious	Open
	Risks are unacceptable in any case despite mitigating factors and considerable potential reward.	Potential losses from these risks should be calculated and planned in advance, provisions should be created or insurance contracts should be in place, and necessary controls should be in effect.	The maximum potential impact from these risks should be lower or equal to the minimal return. The necessary mitigation actions and controls should prevent losses.	The risk impact may exceed the potential level of return; compensating factors may partly mitigate this impact.
RISK CATEGORY				
Strategy				OPEN
Operations			CAUTIOUS	
Compliance	AVERSE	MINIMAL		
Reporting and financing				

Internal control

To ensure the effectiveness and completeness of the Company's internal control system, X5 employs a three-tier model to establish and maintain control:

1ST LINE Business	2ND LINE Risk management and internal control and compliance	3RD LINE Internal Audit
Manage risks on a daily basis and provide assurance regarding the effectiveness of control	Steer, monitor and support line management in terms of managing risks and developing and maintaining an adequate internal control framework	Conduct audits and test the internal control systems to provide additional assurance regarding the effectiveness of control

Ethics and compliance culture

Values and business principles are crucial elements of the internal environment for risk management. We are committed to values and business principles that contribute to a culture of integrity and long-term value creation, and we have established and internally communicated rules and policies that outline these values and principles.

Data on these objectives can be found in the "Compliance and ethics" and "Risk profile" sections.

Monitoring and assurance

Internal Audit provides independent and objective assurance of the impact of the above-mentioned control processes. Systematic and disciplined evaluations of risk management, internal control and governance activities are performed with the help of X5’s Control Heat Map, which lists all the key business processes with an overall evaluation of the effectiveness of internal control in each business process. Following a risk-based audit planning approach, Internal Audit performs evaluations of operational, financial and information systems and tests of controls on key business processes that reveal internal control issues. Internal Audit provides recommendations for the responsible executives in terms of improving controls. Action plans that address control issues raised by Internal Audit are prepared by business process owners and approved by the General Directors of retail formats or the Directors of corporate functions. The timely implementation of management action plans is monitored and followed up on a monthly basis, and the status of addressing these control issues is regularly reported and discussed with the CEO and the Audit and Risk Committee.

The Company’s principal risks

Risk profile

The principal risks that may impede the achievement of X5’s objectives with respect to strategy, operations, compliance and reporting matters are described below. It should be noted that there are additional risks that management believes are immaterial or otherwise common to most companies, or that we are currently not aware of.

This Annual Report presents the revised and confirmed risk profile by the Executive Board including risk appetite.

Principal risks

Strategy

Market and macroeconomics

- Major changes in the economic environment may challenge the existing business strategy or have a material impact on financial performance.
- We constantly monitor and forecast the economic environment and make adjustments to our strategy as needed.

Also see "Economic and market trends" on pages 38–39

Competitive environment

- Actions on the part of competitors or new market entrants affect the Company's competitive advantage and performance.
- We constantly analyse customer behaviour and adjust our strategy accordingly.
 - We continue to adapt and innovate to refine our CVP to customer needs across all formats.

Also see "Competitive landscape" on page 31

Business development investments

- Insufficient returns from investments in new business lines, and retail chain development capital cost.
- We adhere to strong investment control procedures. All new business initiatives are subject to pilot validation.
 - We implement action plans to improve the performance of non-performing stores.

Principal risks

Operations

Retail and customer service

- Non-effective and inconsistent operational management may affect X5's ability to provide our customers with an attractive shopping experience.
- We use trading and research data to assess our performance in meeting customer priorities regarding prices, product range, availability and service.
 - Every year we increase our regional management teams to ensure our stores are well supported across all locations.

Supply chain

- Insufficiencies in our retail operations' infrastructure and inventory management may lead to an inability to maintain effective inventory management and ensure a reliable supply of goods to our customers while minimising shrinkage and excessive stock.
- We run comprehensive supply chain operations with decentralised logistics function, which allows our retail chains to effectively manage inventory across the supply chain.
 - We always seek to establish a balance between using our own and outsourcing transport to increase the efficiency of logistics.
 - Monitor the production of the food and non-food goods we sell "from farm to fork" for quality and safety.

Also see "Retail infrastructure" on pages 136–161

Human resources

- Fast changes in the labour market may cause an inability to recruit, train and retain the optimal number of employees and as a result lead to high personnel turnover.
- We regularly monitor the labour market, and we offer employee benefits in line with the market.
 - We have a system for employee onboarding, training, and development in place, along with a talent pool.

IT continuity performance

- Disruptions of business continuity due to IT infrastructure problems may result in the unavailability of core business operations.
- We manage the capacity of our IT systems in order to ensure that information technology resources are able to meet current and future business requirements in a cost-effective manner.
 - We constantly monitor and control system productivity.
 - We have implemented a disaster recovery plan that focuses on IT and technology systems supporting critical business functions.

Also see "Information technologies" on pages 150–151

Cybersecurity

- External and internal threats to information security, including cyberattacks, viruses and other malicious actions to, for instance, infiltrate our IT systems or damage data.
- We implement all necessary policies and procedures, tools, hardware and software to ensure confidentiality, integrity and availability of information assets.

Also see "Information technologies" on pages 150–151

Real estate, rent and maintenance

- Our ability to open new stores and provide the required level of maintenance is heavily dependent on:

 - Our ability to obtain planning or other consents
 - Our ability to comply with varying country safety, design and construction standards
 - Our ability to provide cost-effective maintenance service
- When identifying, leasing, purchasing or refurbishing suitable properties, our real estate divisions monitor and address regulatory and other risks related to construction work.
 - The performance of a property is monitored and reviewed on an ongoing basis, and a refurbishment programme for stores is in place to maintain and optimise the property.

Principal risks

Compliance

Fraud and corruption

- Inability to set and promote a Company-wide culture of ethical integrity and failure to detect or prevent corruption and fraud can lead to a decline in economic value and significant reputation damage.
- We uphold a zero-tolerance policy for abuse and provide personnel training in this area.
 - We implement automated and manual controls in business processes, and separate the rights to access information systems.
 - We require that all employees complete a declaration of a conflict of interest to ensure there is not a conflict.

Legislation and litigation

- Inability to identify, quickly respond to and attempt to modify unfavourable proposed changes to applicable laws.
 - Enter into contracts that are unfavourable for the Company and the failure to comply with or monitor contract terms to protect the Company from financial losses.
- Our legal team participates in every stage of important business negotiations and analyses contract terms to minimise risks.
 - Contracts are largely standardised to ensure our rights are uniformly protected.
 - We are strongly committed to complying with all applicable laws and regulations.

Reputation and social responsibility

- X5 has brand risk through either brand damage or inability to maintain social responsibility, etc.
- We ensure that we set high ethical standards, which are well communicated through our Code of Ethics, and that activities are regularly monitored.
 - We have approved and are implementing a sustainability strategy.
 - We provide sustainable development training for employees and Company management.
 - We believe we have taken appropriate steps to protect our trademarks and other intellectual property rights.

Also see "Sustainable development" on pages 162–209

Environment and rational use of resources

- Failure to commit to preserving and protecting the environment and making sustainable use of natural resources.
- We support rational consumption, and we are reducing energy consumption.
 - Our vehicles are now greener and produce less emissions.
 - Energy-saving equipment in our stores is more efficient.

Also see "Sustainable development" on pages 162–209

Health and safety

- Prevention of injury or loss of life to both employees and customers is of utmost importance. Failures could damage customer trust and confidence, impacting our customer loyalty and ultimately our financial results.
- We have a health and safety policy in place to cover work-places across Company's various functions.
 - We are committed to promoting the highest health and safety standards by implementing advanced safety technologies and techniques.
 - OHS teams in retail chains oversee compliance with the Company's health and safety policies.

Also see "Occupational health and safety" on pages 198–203

Human rights

- Failure to uphold ethical behaviour and resulting violations of the human rights of customers, employees or contractors.
- We uphold our Code of Business Conduct and Ethics.
 - We uphold our Human Rights Policy.
 - We provide training to employees and develop our corporate culture.
 - We guarantee accessibility for special-needs customers and employees.

Also see "People review" section on pages 190–203

Principal risks

Compliance

Product safety and quality

- X5 is potentially exposed to the risk of being unable to establish strict food safety and quality control policies and procedures and to ensure full adherence to these at all times.
- We introduced strict product safety procedures for ensuring product integrity at all times.
 - We cooperate with suppliers to ensure mutual understanding of the required standards.
 - We constantly monitor changes in the regulations regarding food safety and regularly review our respective policies and procedures to ensure compliance.

Also see "Sustainable development" on pages 162–209

Taxation

- Unfavourable changes in tax legislation such as the introduction of new taxes and fees.
 - State authorities interpreting tax laws in a way that is disadvantageous for X5.
 - Attempts to challenge previous trans-actions and amounts of associated tax payments by tax authorities.
- We monitor taxation-related legislative initiatives and court practice that can influence our position regarding the tax treatment of our business processes.
 - We conduct preliminary review of potential tax risks before executing transactions.
 - We assume and reassess, if needed, our attitude to risk assessment every quarter, taking into account the changing tax environment and case law.

Data privacy and security

- Failure to identify and prevent non-compliance with privacy rules and regulations standards resulting in improper disclosure of confidential customer information.
- We regularly report on the progress of our security and privacy programmes to management and oversight committees.
 - Ongoing monitoring of our processes, which includes assessment and monitoring of risk, continues to drive compliance throughout our business.

Reporting and financing

Reliability of financial reports

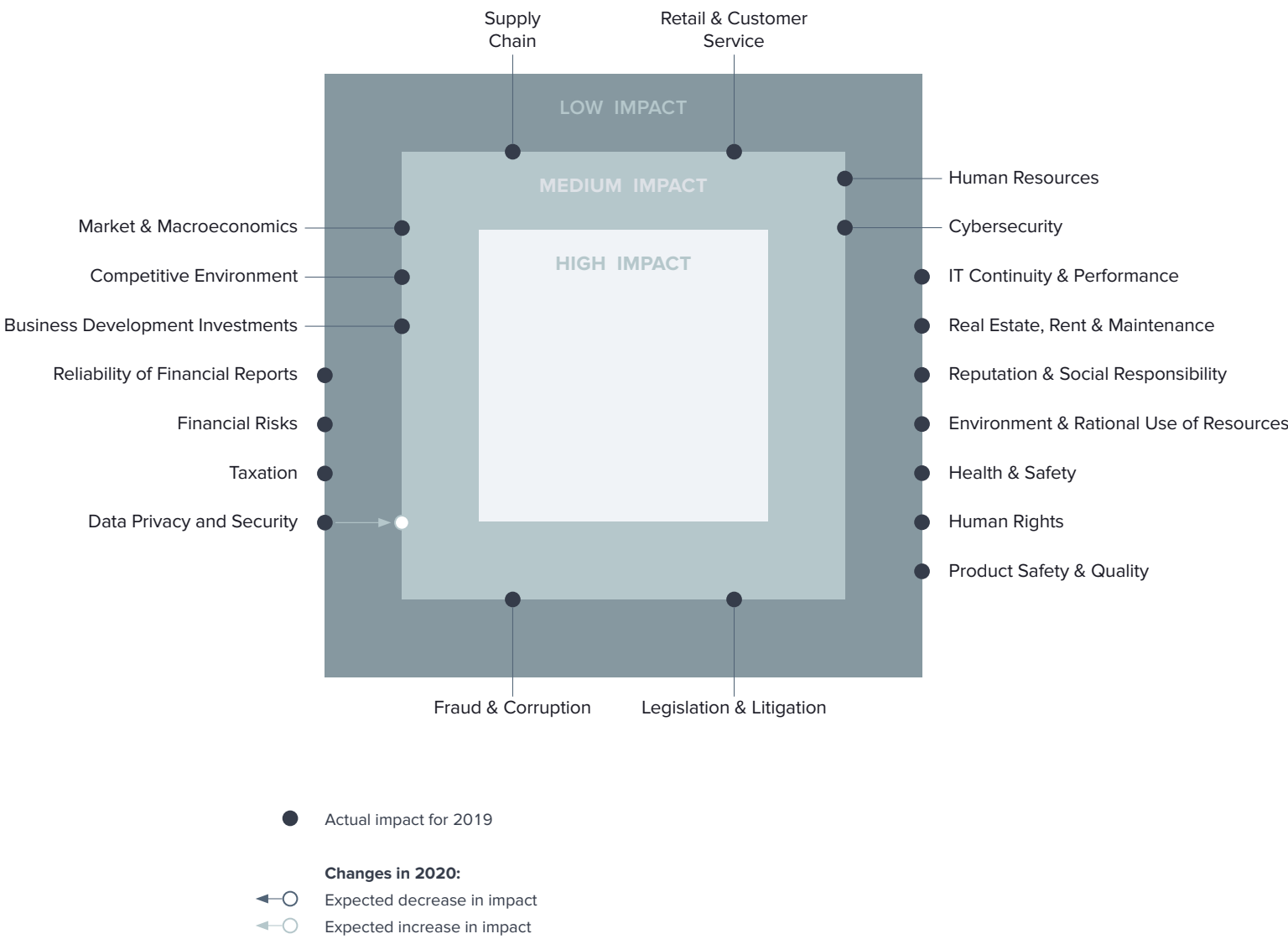
- Non-compliance with statutory require-ments on financial reporting.
 - Misrepresentation of management accounts and financial statements.
 - Ambiguity of management accounts and financial statements.
 - Disclosure level not in line with share-holder, lender and market expectations.
- We monitor legislative initiatives and case law regarding financial statements, as well as changes in reporting methodologies.
 - We manage our bookkeeping methodology and apply necessary internal controls to record transactions and prepare financial statements.

Financial risks

- X5 could be affected by common financial risks:
- Increases in interest rates and/or banking fees.
 - Significant volatility of foreign exchange rates.
 - Liquidity risk and credit risk.
- X5 plans and monitors its budget and performance, and the Company also introduces changes needed to achieve financial targets.
 - We monitor repayment schedules for long-term and short-term accounts receivable, and oversee the use of short-term lending via available credit lines to manage liquidity.
 - We manage the effective financing rate and have undrawn credit limits in banks.
 - We maintain a strong credit rating so that maturing debt may be refinanced as it falls due.

Expected risk trends

For the designated risk groups, X5 analysed the actual risk impact in 2019 and made predictions about the expected future impact, taking external conditions and trends into account.



Statement of the Management Board

The Management Board reviewed and analysed the strategic, operational, compliance and reporting risks to which the Company was exposed, as well as the effectiveness of our internal risk management and control systems over the course of 2019. The outcome of this review and analysis has been shared with the Audit and Risk Committee and the Supervisory Board and has been discussed with X5's external auditors.

The Management Board reviewed the effectiveness of X5's internal risk management and control systems, based on:

- internal audit reports on reviews performed throughout the year; observations and measures to address issues were discussed with management and the Audit and Risk Committee;
- internal audit's overall opinion regarding X5's risk management, internal controls and corporate governance processes in 2019;
- a systematic review of scoping, control execution and control assessments in the context of the internal control strategy for 2017–2020;
- periodic risk reports reported by the management of corporate functions and the three main business segments (retail formats);
- ongoing monitoring of key risk-management initiatives aimed at mitigating risks and keeping risks at an acceptable level;
- management assurances regarding the adequacy and effectiveness of risk management and control systems in the retail chains and business support units during 2019;
- the external auditor's ongoing reflections on the control framework, and the management letter from the external auditor with observations and remarks regarding internal controls. This letter has been discussed with the Audit and Risk Committee and Supervisory Board.

For more information on X5's risk management activities, internal control, risk management systems and key risks, see the above section "How we manage risk". The purpose of X5's internal risk management and control systems is to adequately and effectively manage the significant risks to which the Company is exposed. Such systems can never provide absolute assurance as to the realisation of operational and strategic business objectives, nor can they prevent all misstatements, inaccuracies, errors, fraud and non-compliance with legislation, rules and regulations. These systems do not provide certainty that the Company will achieve its objectives. Based on the annual evaluation and discussion of X5's internal control and risk management systems and identified risk factors, the Management Board confirms that, according to the current state of affairs and to the best of its knowledge:

- X5's internal risk management and control systems provide reasonable assurance that the Company's financial reporting does not contain any material inaccuracies;
- there have been no material failings in the effectiveness of X5's internal risk management and control systems;
- there are no material risks or uncertainties that could reasonably be expected to have a material adverse effect on the continuity of X5's operations in the coming 12 months;
- it is appropriate that financial reporting be prepared on a going-concern basis. This conclusion is based on our review of the strategic plan, the budget 2020 and our estimate of the economic outlook.

In view of all of the above, the Management Board confirms that, to the best of its knowledge, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its consolidated subsidiaries, and the management report includes a fair review of the position on the balance sheet date and of the development and performance of the business during the financial year together with a description of the principal risks and uncertainties that the Company faces.



Supervisory Board

1. **Stephan DuCharme**

CHAIRMAN OF THE SUPERVISORY BOARD

Stephan DuCharme, a dual US/German citizen, is Managing Partner of L1 Retail, part of LetterOne investment group. Stephan currently serves as Chairman of DIA and is a board member of Holland & Barrett. Stephan has been Chairman of X5 Retail Group since the beginning of 2016, having previously served as Chief Executive Officer from July 2012 until November 2015 and as a non-executive member of X5's Supervisory Board beginning in 2008. Prior to X5, Stephan held senior management positions with Alfa Group, the European Bank for Reconstruction and Development (EBRD) and Salomon Brothers Inc. He graduated with distinction from the University of California at Berkeley and received an MBA from INSEAD.

2. **Peter Demchenkov**

VICE-CHAIRMAN OF THE SUPERVISORY BOARD, CHAIRMAN OF THE NOMINATION AND REMUNERATION COMMITTEE

Peter Demchenkov, a Russian citizen, is CEO of ALIDI, a leading provider of distribution and logistics services in Russia. From 2004 to 2005, he was Development Director at the investment bank CIT Finance, and from 1997 to 2004, he worked in Procter & Gamble's Business Development Department for Eastern Europe. Peter graduated from the St. Petersburg Polytechnic University with a degree in Technical Cybernetics.

3. **Mikhail Fridman**

MEMBER OF THE SUPERVISORY BOARD

Mikhail Fridman, one of the original founders of Alfa Group Consortium, is Chairman of the Supervisory Board of Alfa Group Consortium, one of Russia's largest privately owned financial-industrial conglomerates. Mr Fridman is also a member of the Supervisory Board of VEON, a member of the Board of Directors of Alfa Bank and a member of the Board of Directors at ABH Holdings. Mr Fridman is co-founder of LetterOne, an international investment business headquartered in Luxembourg. Mr Fridman is a member of the Board of the Russian Union of Industrialists and Entrepreneurs and of the International Advisory Board of the Council on Foreign Relations (USA). He graduated from the Moscow Institute of Steel and Alloys in 1986. Mr Fridman was born in Lvov, Ukraine, in 1964.

4. **Andrei Elinson**

MEMBER OF THE SUPERVISORY BOARD

Andrei Elinson, a Russian citizen, is Managing Partner of A1 and a member of the Supervisory Board of A1 Investment Holding S.A. From December 2015 to March 2018, he held the office of Director of Asset Management in CTF Consultancy Limited. Prior to joining CTF, Mr Elinson was Deputy CEO of Basic Element, where he worked from August 2007 and was responsible for managing companies in aviation, construction, automotive, financial and other industries. From 1997 to 2007, Mr Elinson worked at Deloitte CIS and became a Partner in 2005. Mr Elinson graduated with honours from the Russian State Finance Academy, Accounting & Auditing faculty. Mr Elinson is a US Certified Public Accountant and a US Certified Fraud Examiner. He holds a Certificate in Company Direction (UK).

5. **Geoff King**

MEMBER OF THE SUPERVISORY BOARD, CHAIRMAN OF THE AUDIT AND RISK COMMITTEE

Geoff King is a British national and is the CEO of The Food Purveyor, a leading premium supermarket operator in Malaysia. Prior to this role, he consulted for five years for food retail businesses across Europe and SE Asia. Between 2010 and 2013, Geoff was Group CFO of Maxis, a major telecoms operator in Malaysia and India. Previously, Geoff held many leadership roles in a career with Tesco PLC spanning over 20 years, including 10 years as CFO in a number of markets in Europe and Asia. Geoff holds a degree in Pure Mathematics from Exeter University and is a prize-winning CIMA accountant.

6. **Michael Kuchment**

MEMBER OF THE SUPERVISORY BOARD

Michael Kuchment, a Russian citizen, is the co-founder and Vice President of Hoff, one of the leading home furnishing retailers in Russia. Currently, Michael is also Chairman of the Supervisory Board of Sovcombank, one of the leading Russian consumer banks. From 2008 until 2015, Michael was a board member of M.Video, the largest consumer electronics chain in Russia and the country's first public non-food retailer. Previously, from 2002 until 2008, Michael worked as the Commercial Director at M.Video. Michael graduated from the Moscow Institute of Physics and Technology as a physics researcher, and he holds an Executive MBA from the Skolkovo Moscow School of Management.



Management Board

7. **Karl-Heinz Holland**

MEMBER OF THE SUPERVISORY BOARD

Karl-Heinz Holland, a German citizen, joined X5 in 2018. He served at Lidl Group for over 20 years in various leadership capacities, including six years as CEO, during which time he drove the expansion of Lidl across Europe. He has wide-ranging expertise in the international retail arena, currently serving as CEO and on the Board of Directors of Distribuidora Internacional de Alimentación, S.A., as well as on the Supervisory Board of Zooplus AG. Karl-Heinz holds a degree in Business from Augsburg University of Applied Sciences.

8. **Nadia Shouraboura**

MEMBER OF THE SUPERVISORY BOARD

Nadia Shouraboura, a US citizen, joined X5 in 2018. She has extensive experience in development of innovative concepts for modern retail, as well as technology and data-driven solutions for consumers. In 2004–2012, Nadia served as Technology Vice President for Amazon's global supply chain and fulfilment platforms. Subsequently, she launched her own technology consultancy for the retail industry globally, aimed at combining the best of the online and offline worlds. Nadia is the co-founder of Anko Retail Inc., where she serves as a director and is a non-executive director at Ferguson plc. Nadia holds a degree in Mathematics and Computer Science from Moscow State University and a PhD in Mathematics from Princeton University.

9. **Alexander Torbakhov**

MEMBER OF THE SUPERVISORY BOARD, CHAIRMAN OF THE INNOVATION AND TECHNOLOGY COMMITTEE

Alexander Torbakhov, a Russian citizen, has extensive experience in digital transformation processes, most recently as Deputy Chairman of the Executive Board of Sberbank, where he headed the Retail Business Unit. Currently he serves as a non-executive member of the Board of Directors of Fortenova Grupa. Prior to Sberbank, he held General Director positions in Vimpel Communications and Rosgosstrakh-Life Insurance Company. Mr Torbakhov holds an engineering degree from the Moscow Aviation Institute, an economics degree from the Moscow State Institute of International Relations and an MBA from the University of Chicago (USA).

10. **Igor Shekhterman**

X5 CHIEF EXECUTIVE OFFICER, CHAIRMAN AND MEMBER OF THE MANAGEMENT BOARD

Igor Shekhterman, a Russian national, has served on X5's Supervisory Board since 2013. He was previously the Managing Partner and CEO at RosExpert, which he co-founded in 1996 and subsequently successfully developed into the Russian partner of Korn Ferry International. Igor started his career as Finance Manager at the Russian branch of Beoluna, the Japanese jewellery producer. Igor holds a degree in Economics from the Kaliningrad Technical Institute (1992) and degrees in Business Administration from the Institute d'Administration des Entreprises (France, 1994) and the Danish Management School (1995).

11. **Frank Lhoëst**

COMPANY SECRETARY, MEMBER OF THE MANAGEMENT BOARD

Frank Lhoëst, a Dutch national, joined X5 in 2007, having previously held several positions at Intertrust Group. Frank graduated from Leiden University with a degree in Law.

12. **Quinten Peer**

MEMBER OF THE MANAGEMENT BOARD

Quinten Peer, a Dutch national, joined X5 in 2018. Previously he worked for Gazprom in the Netherlands, where he managed Gazprom's 50% interest in the Sakhalin-II project. He lived in Russia from 2012 to 2016, where he managed international business development and the expansion of a major capital project as COO for Sakhalin Energy. Quinten holds a degree in Law from the Dutch University of Groningen.

Report of the Supervisory Board

The Supervisory Board is responsible for supervising and advising the Management Board and overseeing the general course of affairs, strategy and operational performance of the Company. In performing its duties, the Supervisory Board acts in accordance with the interests of the Company and its affiliated businesses, taking into consideration the overall good of the Company and the relevant interests of all its stakeholders. In X5’s two-tier corporate structure under Dutch law, the Supervisory Board is a separate body operating fully independently of the Management Board.

Composition and profile of the Supervisory Board

X5’s Supervisory Board currently consists of nine members, with a majority of six independent members. On an ongoing basis, the Supervisory Board reviews the profile of its size and composition, taking into account the evolving nature of X5’s business and activities and the desired expertise and background of the members of the Supervisory Board. The Supervisory Board profile is published on X5’s corporate website.

In 2019, the Supervisory Board strengthened its expertise in the area of technical and commercial innovation with the nomination of Alexander Torbakhov. Alexander, who was appointed by the Annual General Meeting of Shareholders on 10 May 2019, has extensive experience in digital transformation processes, most recently as Deputy Chairman of the Executive Board of Sberbank.

Also at the Annual General Meeting of Shareholders, following their nomination in line with the rotation schedule of the Supervisory Board, Peter Demchenkov and Geoff King were reappointed for an additional four-year term, Mikhail Kuchment was reappointed for an additional three-year term and Stephan DuCharme was reappointed for an additional two-year term.

On 18 March 2020, the Supervisory Board nominated Marat Atnashev as a new member of the Supervisory Board. He will succeed Andrei Elinson, who will not be available for reappointment at the 2020 Annual General Meeting of Shareholders, having served since 2016.

Recognising the value and increasing importance of leveraging different points of view from among its members, the Supervisory Board aims for a diverse composition in particular areas of relevance for X5. Supervisory Board candidates are evaluated against the Board’s profile; existing balance of skills, knowledge and experience; and the need for the Board to be prepared for disruption and change. Supervisory Board members are prompted to be mindful of diversity, inclusiveness and meritocracy considerations when examining and nominating Board candidates. This also includes diversity of gender and age so that, when a final appointment is made, the Supervisory Board can be confident that the most effective candidate has been selected. While the Supervisory Board is currently not balanced with regard to gender, it recognises the benefits of gender diversity, and importance is attached to achieving this. The Board is conscious of the public debate and regulatory developments in this respect and takes this into account in its succession planning, in line with the Group’s Leadership Diversity Policy approved in 2018.

An overview of the current composition of the Supervisory Board and a short biography of each member is presented in the Corporate Governance Report on pages 210–253.

Composition of the committees

While retaining overall responsibility, the Supervisory Board assigns certain tasks to three committees: the Audit and Risk Committee, the Nomination and Remuneration Committee and the Innovation and Technology Committee.

The Innovation and Technology Committee was established in January 2019 to strengthen the focus of the Supervisory Board on technical and commercial innovation and to address the disruption that is increasingly characteristic of the retail industry. The members of the committee are Alexander Torbakhov (Chairman), Nadia Shouraboura and Mikhail Kuchment.

Upon his appointment by the General Meeting of Shareholders, Alexander Torbakhov also took a seat on the Audit and Risk Committee. In view of new engagements outside the Group, Karl-Heinz Holland stepped down from the Audit and Risk Committee as of 1 June, to be succeeded by Peter Demchenkov.

The Supervisory Board also evaluated the composition of the Nomination and Remuneration Committee. Allowing Stephan DuCharme to focus on his duties as Chairman and specifically the Company’s overall strategic development, sustainability agenda and digital transformation, the Board approved in December his resignation from the Nomination and Remuneration Committee in March 2020, with Geoff King taking his place.

Also in December the Board resolved to dissolve the Related-Party Committee as of 1 January 2020, integrating its responsibilities into the overall remit of the Audit and Risk Committee.

An overview of the current composition of the committees is presented in the Corporate Governance Report.

Induction and ongoing education

Induction and ongoing education are key elements of good governance. Following their appointment, new Supervisory Board members go through X5’s strategic, financial, legal and reporting affairs with senior executives of the Company. In addition, prior to their appointment, they are invited to meetings of the Supervisory Board and its committees. On an ongoing basis, and together with members of senior management, members of the Supervisory Board visit stores and distribution centres to gain deeper knowledge of local operations, opportunities and challenges.

As an additional source of informal learning, guest speakers with expert knowledge of topics that are of particular relevance to the Company are invited to plenary Board meetings.

The Supervisory Board remains committed to the ongoing education of its members in order to comply with the highest standards of excellence and governance.

Meetings of the Supervisory Board

In 2019, the Supervisory Board held four regular meetings and one additional meeting in January. In addition, resolutions in writing were taken when necessary during the year. For each of the four regular meetings in 2019, the Supervisory Board meeting was preceded by meetings of the Audit and Risk Committee and the Nomination and Remuneration Committee. Meetings of the Innovation and Technology Committee were convened more frequently throughout the year, and meetings of the Related-Party Committee were held if and when necessary.

The plenary Supervisory Board meetings in June, September and December included a half-day strategy session, thus ensuring sufficient time for the meetings and discussions on specific themes, such as operational performance, strategy and management development. The CEO and CFO attended all meetings, and other members of senior management were regularly invited to present.

In 2019, the Supervisory Board held regular private sessions without members of the Management Board present to independently discuss matters related to the performance, functioning and development of members of the Executive Board. The external auditor attended the meeting in March at which the 2018 Annual Report and financial statements were recommended for adoption by the Annual General Meeting of Shareholders. In between the Supervisory Board meetings, several informal meetings and telephone calls took place among Supervisory Board members and members of the Management Board and other Company management to consult with each other on various topics and to ensure that the Supervisory Board remains well informed about the running of the Company's operations.

The Supervisory Board confirms that all Supervisory Board members have adequate time available to give sufficient attention to the concerns of the Company. In 2019, the attendance rate was 100% for both the Supervisory Board and the committee meetings.

Activities in 2019

In 2019, the Supervisory Board reviewed various matters related to all significant aspects of the Company, its activities and operational results, strategy going forward and the management team and its development.

The Board continued to monitor the implementation of X5's corporate strategy, with a focus on long-term value creation through operational excellence and X5's capacity to continuously adjust to market trends and changing customer needs. Against the background of an increasingly competitive environment and challenging macroeconomic conditions as well as technological disruption, the Supervisory Board focused on measures to strengthen X5's core businesses, with specific attention for operational efficiencies and improving customer experience through the use of technology and innovation.

As part of the strategy to better meet customer needs and maximise investment returns across each business unit, the Board extensively reviewed the position of the Karusel hypermarket segment within X5's multi-format strategy. In September, the Board approved transforming this format and focusing on strengthening the Company's leadership position in its core proximity and supermarket segments.

Throughout the year the Board engaged in an active dialogue on key trends recognised in the retail marketplace and which of these trends would provide opportunities for the Company to accelerate growth. As part of these discussions, and the Board's oversight in the area of technical and commercial innovation, Board members reviewed various initiatives and new business concepts. Board members visited new Pyaterochka and Perekrestok concept stores, and joined the senior management team for a seminar in Silicon Valley on technology and disruption in retail. Through the work of its Innovation and Technology Committee, the Board also reviewed opportunities to digitalise key functions and processes inside the Company, including store and category management, logistics and HR, to increase efficiency and decrease operational risks.

Meanwhile, as e-commerce and digital transformation becomes an integral part of the business, with Perekrestok.ru and 5Post emerging alongside the existing retail channels, the Board remained strongly focused on striking the right balance between traditional and online retail, profitability targets of new businesses, cost discipline and systematic digitalisation across the Group.

In December, conscious of the fact that the rapidly expanding footprint of the Company goes hand in hand with enhanced social and environmental responsibilities, the Board reviewed and approved the Company's renewed sustainable development strategy, embedding clearly defined sustainable development goals in its overall business strategy.

As part of the ongoing performance review of the Company's various functions and business divisions, the main topics reviewed and discussed by the Supervisory Board included:

- the balanced growth strategy for the Pyaterochka retail chain, the format's new customer-centric store concepts, and continued focus on operational efficiencies, price leadership and cost discipline;
- the leadership strategy for the Pyaterochka retail chain, with a focus on CVP updates, development in regions of Russia, rebranding of former Karusel stores and a growth strategy for the format's online business;
- customer feedback as a key element in support of the Company's ability to continuously adapt to market trends and changing consumer needs;
- requirements in terms of organisation, leadership and corporate culture to ensure sustainable growth in the rapidly changing retail industry;
- the launch of an internal Digital Academy;
- direct import, real estate and transport as newly organised business support functions at the central level;
- the private-label strategy and implementation programme for each of the formats.

In addition, the Supervisory Board discussed and/or approved the following (regular) topics throughout the year:

- the financial reporting process and in particular the approval of the 2018 Annual Report and review of the 2019 half-yearly and quarterly financial reports, taking into account the impact of IFRS 16 accounting standards for lease accounting, implemented in 2019;
- the agenda and explanatory notes for the Annual General Meeting of Shareholders held in May 2019, including the dividend proposal;
- reports by the internal and external auditors;
- the assessment of cooperation with the external auditor, based on a report from the Audit and Risk Committee;
- the composition of the Executive Board and the evaluation of its individual members, including talent management and succession planning;
- the profile and effectiveness of the Supervisory Board in the context of the annual Board evaluation, as described in more detail below;
- the composition of the Supervisory Board and its committees, and in particular the nomination of Alexander Torbakhov as a new member of the Board and Chairman of the Innovation and Technology Committee established early in the year;
- the adjusted remuneration policy for the Supervisory Board based on an external benchmark analysis commissioned by the Nomination and Remuneration Committee;
- the updated financing strategy;
- updates on X5's risk landscape and risk appetite, as well as risk mitigation measures and internal controls;
- the annual budget for 2020.

Board evaluation

X5 undertakes an annual review of the Supervisory Board, its committees and its individual members. The objective is to provide a framework for discussion on the effectiveness of the Supervisory Board and its members and committees, and to come up with an updated Board Development Plan with specific actions to facilitate improvement.

In the autumn of 2019, the Board performed its annual self-assessment, partly through questions building on the Board assessment performed in previous years. Items assessed and subsequently discussed included the profile and composition of the Supervisory Board, oversight of business performance, effectiveness in overseeing strategy, the level of attention to ESG matters, the effectiveness of the committees in alleviating the Board's overall oversight, and the Supervisory Board's relationship with the Executive Board. In addition to the self-assessment by the Supervisory Board members, input was also solicited and received from members of the Executive Board.

The main conclusions of the evaluation were collectively discussed by the Supervisory Board at its meeting in December. The evaluation concluded that the Board felt its work and performance during the year had been positive. There had been an effective process to develop and streamline the Group's strategic priorities, and Board discussions remained open and constructive. Key points of attention resulting from the evaluation included continued focus on the Board's composition in light of the rapid changes happening in the industry, emphasis on ESG matters as an integral part of the overall strategy, and strengthening the role and effectiveness of the Innovation and Technology Committee. The results of the evaluation, along with the Board's profile and skill matrix, will be taken into account in future Board nominations.

The Supervisory Board attaches great value to these evaluations. They ensure continuous focus on the quality of the activities, composition and functioning of the Supervisory Board and its Committees and relationship with the Executive Board.

Meetings of the committees

Audit and Risk Committee

The role of the Audit and Risk Committee is described in its charter, which is available on the Company's website. On 31 December 2019, the Audit and Risk Committee consisted of Geoff King (Chairman), Peter Demchenkov, Andrei Elinson and Alexander Torbakhov. In 2019, the Committee held four meetings in person. Additional meetings were held by conference call when necessary, for instance to review the publication of the half-yearly results. As a rule, all meetings were attended by the CFO, the external auditor and the internal audit director, while the Chairman and CEO were invited to attend all meetings. Other members of the Supervisory Board and senior management were invited when necessary or appropriate. The Committee met once with the external auditor without the presence of management.

The Committee's focus in 2019 was on, among other things, on overseeing the integrity and quality of X5's financial reporting and the effectiveness of the internal risk and control systems. The Committee reviewed the Company's annual and interim financial statements, including non-financial information, quarterly results and related press releases, as well as the outcomes of the year-end audit. The Committee discussed relevant and new accounting standards, with continued focus on the impact of lease accounting under IFRS 16. Throughout the year, the Committee reviewed the level of financial provisions, key movements in the balance sheet, and any contingent liability movements. As part of this review, the Committee paid specific attention to controls and initiatives in the area of working capital management.

Furthermore, the Committee reviewed and approved the audit plans of the internal and external auditors, with a focus on scoping, materiality and key risks. The Committee monitored the progress of the internal and external audit activities, including a quarterly review of internal audit findings and remedial actions, procedures performed by the external auditor and the audit performed at year end by the external auditor. The Committee oversaw follow-up by management on the recommendations made in the internal and external management letters.

The Audit and Risk Committee, together with management, conducted its annual assessment of the functioning and independence of the external auditor. The main conclusions of this assessment were shared with the Supervisory Board for the purpose of submitting the reappointment of the external auditor to the General Meeting of Shareholders.

Throughout the year, the Committee closely monitored risk management and the risk management process, including the timely follow-up to high-priority actions and risk mitigation measures based on quarterly progress updates. The Committee was informed regularly on compliance and reviewed and received regular updates on the Company's whistle-blower programmes. Furthermore, the Committee reviewed activities and initiatives relating to detection and prevention of misconduct and irregularities, and risk mitigating measures to protect the Company in these areas.

The Committee extensively discussed the effectiveness of the internal control framework. Each quarter, the agenda includes a discussion on current control topics, including internal audit findings and the external auditor's reflections on the control framework. These discussions guided management and Internal Audit to focus on the right priorities throughout the year, mitigate any significant risks or weaknesses, and to build a relevant internal audit plan for 2020.

In 2019, the Committee also continued to review the operational control framework, paying particular attention to stock and fixed assets. Management processes concerning stock-holding and loss levels were examined across all formats.

Throughout the year, the Committee closely monitored the effectiveness of the capital investment process, the appraisal methodology, and the safeguarding of core assets. The Committee also reviewed management actions addressing underperforming stores and impaired assets. Assessing the level of returns from investments, the Committee specifically focused on adapting existing and proven capital investment disciplines and control models to support a greater level of investment in new business areas and technology-based projects which have a different profile of investment risk.

The Committee also discussed other issues, including:

- the external auditor's report with respect to accounting and audit issues and internal control recommendations in respect of their audit of the 2018 consolidated financial statements;
- quarterly interim financial reports and trading updates;
- financing strategy;
- tax matters;
- Information security and data protection;
- regulatory compliance and changes in legislation;
- non-commercial procurement processes;
- efficiency and the framework of risks and internal controls for key support functions within the Group, including direct import, transport and real estate.

With respect to the external auditor's management letter about the 2019 financial year, the Audit and Risk Committee confirms that the management letter contained no significant items that need to be mentioned in this report.

Nomination and Remuneration Committee

The role of the Nomination and Remuneration Committee is described in its charter, which is available on the Company's website. On 31 December 2019, the Nomination and Remuneration Committee consisted of Peter Demchenkov (Chairman), Stephan DuCharme and Andrei Elinson. The Nomination and Remuneration Committee held six meetings in 2019, including one telephone meeting in January to discuss 2019 performance measures for the Executive Board, and one meeting with the Innovation and Technology Committee in August to review organisational aspects of the Company's e-commerce strategy. The Chairman of the Audit and Risk Committee and the CEO were invited to attend every meeting, and other members of the Supervisory Board and senior management were invited when necessary or appropriate.

In 2019, the Nomination and Remuneration Committee continued to monitor succession planning, management development and human resource needs in relation to the Company's sustainable growth objectives. The Committee particularly discussed new skills and leadership requirements in light of the rapidly changing environment in which the Company operates, introducing new business models driven by big data, e-commerce and innovation alongside traditional retail. The Committee thoroughly reviewed the talent map and organisation structure in support of the ongoing developments driven by digitalisation and new trends, including the creation of an executive Digital Committee to streamline the Group's activities in this area, the launch of the X5 Digital Academy and development of business units responsible for new trends such as ready-to-eat.

As part of its review of the governance and organisation structure, the Committee remained focused on headcount and cost discipline at the central level, aiming to strike the right balance between the Group's decentralised operating model and the role and size of the Group's Corporate Centre centre as a platform for performing unique functions in support of the Group's businesses. Also, the Committee reviewed and made recommendations in respect of the Group's central leadership and direct reports structure.

The Committee also continued to monitor attrition rates and measures to enhance employee engagement, recognising that employees committed to the best and highest in-store service levels are key factors in the Company's customer-centric business approach.

The Nomination and Remuneration Committee further reviewed and prepared the following items for recommendation or report to the full Supervisory Board as part of its ongoing responsibilities:

- annual assessment of the Executive Board and its individual members, and changes in the composition of the Executive Board;
- proposals on fixed and variable remuneration of the members of the Executive Board, including adjustments following the annual remuneration benchmarking analysis;
- updated remuneration review and approval procedures for members of the Executive Board and other senior management;
- the proposed reappointment of the CEO for an additional two-year term, as well as the proposed (re-) appointment of other members of the Management Board;
- composition of the Supervisory Board, in particular the nomination of Alexander Torbakhov as a new Board member with a strong digital background, and the nomination of Stephan DuCharme, Peter Demchenkov, Geoff King and Michael Kuchment, each reappointed for a new term at the 2019 Annual General Meeting of Shareholders;
- the profile and effectiveness of the Supervisory Board in the context of the annual Board evaluation;
- the adjusted remuneration policy for the Supervisory Board based on an external benchmark analysis performed early in the year.

In autumn, the Committee reviewed the remuneration policies for the Management Board and the Supervisory Board that were drawn up in accordance with the revised EU Shareholders Rights Directive, as well as the new disclosure requirements for the annual remuneration report, which can be found on pages 243–253. Further details of actual remuneration in 2019 can be found in notes 28 and 29 to the consolidated financial statements.

Innovation and Technology Committee

The role of the Innovation and Technology Committee is described in its charter, which is available on the Company's website. On 31 December 2019, the Innovation and Technology Committee consisted of Alexander Torbakhov as Chairman of the committee, Nadia Shouraboura and Mikhail Kuchment. The Innovation and Technology Committee held nine meetings in 2019. The CEO was invited to attend every meeting, and other members of the Supervisory Board and senior management were invited when necessary or appropriate.

The Innovation and Technology Committee was established in January 2019 to strengthen the focus of the Supervisory Board on technical and commercial innovation and to address the disruption that is increasingly characteristic of the retail industry. In 2019, the Committee reviewed the overall digitalisation strategy of the Company, specific innovation projects and new online business channels. Jointly with the Nomination and Remuneration Committee, the Innovation and Technology Committee discussed organisational and human resource aspects of the digital transformation, including the launch of a dedicated Digital Academy to secure ongoing training for X5 employees.

In terms of online retail channels, the Committee closely monitored the development of Perekrestok.ru, and discussed and reviewed other e-commerce initiatives such as 5Post and Express Delivery. Throughout the year, the Committee also reviewed opportunities to digitalise key functions and processes inside the Company, and discussed and advised management on various innovative in-store and customer data-driven projects. Finally, the Committee held in-depth discussions with management regarding the IT architecture, as well as the organisation and development of the IT function, in support of the Company's strategy for growth and digital transformation.

Related-Party Committee

In December 2019, the Board resolved to dissolve the Related-Party Committee as of 1 January 2020 and to integrate its responsibilities into the overall remit of the Audit and Risk Committee.

During 2019, the Related-Party Committee consisted of Geoff King (Chairman) and Nadia Shouraboura. In accordance with the Company's Related-Party Transaction Policy, the Related-Party Committee reviewed transactions with a materiality threshold for either the Company or members of the Supervisory Board, Management Board and Executive Board, transactions that qualify as significant related-party transactions as defined in the policy, and transactions of a recurring nature that are pre-approved by the Supervisory Board.

In 2019, the Related-Party Committee did not convene in person, but transactions were reviewed and/or approved in writing when necessary during the year in accordance with the Related-Party Transactions Policy, provisions 2.7.3 and/or 2.7.5 of the Corporate Governance Code, as well as the rules set forth in Article 10 (Conflicts of Interest) of the rules of procedure of the Supervisory Board, which are available on the Company's website. Apart from pre-approved transactions agreed on terms that are customary to the market and tested periodically to ensure ongoing competitiveness, there were no transactions with Management Board or Supervisory Board members that were of material significance to the Company and/or to the relevant Management Board or Supervisory Board members.

Independence

The Supervisory Board confirms that during 2019 all Supervisory Board members were independent within the meaning of provision 2.1.10 of the Dutch Corporate Governance Code, with the exception of Mikhail Fridman and Andrei Elinson as representatives of the Company’s major shareholder, CTF Holdings S.A., and Stephan DuCharme, who acted as CEO and Chairman of the Management Board until November 2015.

Remuneration

The General Meeting of Shareholders determines the remuneration of the members of the Supervisory Board in accordance with the remuneration policy for members of the Supervisory Board. The remuneration policy for the Supervisory Board will be submitted to the 2020 Annual General Meeting of Shareholders taking into account certain additional disclosure requirements under the Dutch Act implementing the revised EU Shareholders Rights Directive that became effective as of 1 January 2019.

The detailed amounts are reflected in the Remuneration Report on pages 243–253, as well as notes 28 and 29 to the consolidated financial statements.

Financial statements

This Annual Report and the 2019 consolidated financial statements, audited by Ernst & Young Accountants LLP, were presented to the Supervisory Board in the presence of the Management Board and the external auditor.

Ernst & Young’s report can be found on pages 335–346.

The Supervisory Board recommends that shareholders adopt these financial statements and, as proposed by the Management Board, allocate RUB 30,000 million for dividend payments. The underlying principle of the dividend policy is that at least 25% of the consolidated net profit for the full year has to be placed at the disposal of holders of global depositary receipts for distribution as dividends. The proposed dividend amounts to RUB 110.47 per GDR with a nominal value of EUR 0.25.

The Supervisory Board furthermore requests that the Annual General Meeting of Shareholders grant discharge to the members of the Management Board for their management and to the members of the Supervisory Board for their supervision in 2019.

The Supervisory Board wishes to express its sincere appreciation for the results achieved and would like to thank the Executive Board and all X5 employees for their continued dedication and efforts in 2019.

The Supervisory Board
18 MARCH 2020

Remuneration

This report constitutes the remuneration report within the meaning of Article 2:135b of the Dutch Civil Code, and outlines the actual remuneration of both Management Board and Supervisory Board members for the 2019 financial year, in line with the respective remuneration policies that are available on our corporate website (www.x5.ru). Further details of actual remuneration of the Management Board and Supervisory Board can be found in notes 28 and 29 to the consolidated financial statements. For Executive Board remuneration in 2019, please refer to the paragraph "Remuneration of the Executive Board (“Other key management personnel”)" in note 28 to the consolidated financial statements.

In accordance with the Dutch Act implementing the revised EU Shareholders Rights Directive (SRD II), the General Meeting of Shareholders has an annual advisory vote on the Remuneration Report. In the Remuneration Report of the subsequent financial year, an explanation will be included on how the advisory vote has been taken into account.

This Remuneration Report explains how the remuneration in 2019 complies with the remuneration policies, how it contributes to the long-term performance of the Company, and how financial and non-financial performance criteria were applied to calculate the variable remuneration.

Remuneration policy

In line with the SRD II, both the Management Board and the Supervisory Board must each have a remuneration policy in place. The remuneration policies must be adopted by the General Meeting of Shareholders at least every four years, and any changes to the policies also require shareholder approval.

The level of support by our shareholders and stakeholders is important to us and was taken into account when formulating each remuneration policy. In preparing these policies, the Supervisory Board 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 organisations representing institutional shareholders and input from the Company’s major shareholders.

Management Board remuneration policy

The Supervisory Board resolved that the remuneration policy for the Management Board serves as a basis for the remuneration policy for the Executive Board. The remuneration policy for the Management Board was most recently amended in 2018 when the General Meeting of Shareholders approved the 2018–2020 long-term incentive plan. The remuneration policy will be resubmitted to the 2020 Annual General Meeting of Shareholders taking into account certain additional disclosure requirements under the SRD II.

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 that will foster alignment of the interests of management with those of 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. While developing the remuneration policy, the Nomination and Remuneration Committee conducted scenario analyses to determine the risks to which variable remuneration could expose the Company.

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

Supervisory Board remuneration policy

As outlined below and under "2019 Supervisory Board remuneration", the remuneration policy for the Supervisory Board was amended and approved in 2019. Supervisory Board fees are set at an appropriate level to attract individuals with the necessary experience, knowledge and ability to make a significant contribution to the Company's strategy, long-term developments and sustainability. As such, the remuneration policy supports the long-term development of the Company, while aiming to fulfil all stakeholders' requirements.

Remuneration
in context

The table below reflects the total remuneration of each member of the Management Board and the average remuneration of all other X5 employees (on a full-time equivalent basis), set off against the Company's performance over the five most recent financial years.

	2019	2018	2017	2016	2015
COMPANY PERFORMANCE					
Revenue, RUB bln	1,734	1,533	1,295	1,034	809
Selling space, ths sqm	7,239	6,464	5,480	4,302	3,333
Number of stores	16,297	14,431	12,121	9,187	7,020
Net profit (under IAS 17), RUB bln	26	29	31	22	14
Share price, USD eop	34.5	24.8	37.8	32.5	19.0
MANAGEMENT BOARD REMUNERATION (RUB MLN)					
I. Shekhterman ¹	259	347	344	455	516
F. Lhoëst	35	33	28	36	45
Q. Peer	10	—	—	—	—
OTHER EMPLOYEES' REMUNERATION					
Average annual employees' remuneration, RUB	754,990	701,192	659,344	665,257	656,932
Internal pay ratio (CEO vs. employee remuneration) ²	211	209	174	195	187

1. Mr Shekhterman was appointed as a member of the Management Board and CEO on 12 November 2015. The table reflects his annualised remuneration.

2. The pay ratio is calculated by dividing the total remuneration of the CEO (base salary and short-term incentive) by the average remuneration of all X5 employees. Given the irregular nature of awards under the LTI programme, LTI awards are not included in the pay ratio for fair and consistent presentation purposes. For 2015, the calculation for the CEO is made from the date of his appointment. The average remuneration per employee is calculated as the total labour costs derived from note 28 to the consolidated financial statements divided by the number of employees on an FTE basis.

As outlined in more detail in the Management Report on pages 58–59, X5 continued, in 2019, to implement its strategy of balanced growth, gradually shifting its focus from selling space expansion to growth through constantly evolving customer value propositions, operational efficiencies, digital transformation and new businesses. As such, for the fifth year in succession, and against the background of an increasingly competitive environment and challenging macroeconomic conditions, the Company expanded its footprint in Russian food retail, with the Company's top line rising by 13.2% year-on-year to RUB 1.7 trillion.

As part of the strategy to better meet customer needs and maximise investment returns across each business unit, the Company launched the transformation of its hypermarket format in September. The Company further strengthened its leadership position in the core proximity and supermarket segments by testing and launching new store concepts, while maintaining focus on quality, efficiency and assortment across the entire store base. Meanwhile, digital transformation became an integral part of the business, with Perekrestok.ru and 5Post emerging alongside the existing retail channels.

The growth and rapidly expanding footprint of the Company goes hand in hand with social and environmental responsibilities. In 2019, the Company strengthened its sustainable development ambitions, embedding clearly defined sustainable development goals in its overall business strategy.

Within the context of these developments, the Nomination and Remuneration Committee continued to reflect on the remuneration policy for the Management and Executive Board to ensure that it is still aligned to support the strategy and long-term growth of the Company. Applying like-for-like sales, return on investment, net promotor score and staff turnover as key annual strategic imperatives to the short-term incentive plan, and sustained leadership in revenue and enterprise value multiples to the long-term incentive plan, we feel that our remuneration policy for the Management Board adequately contributes to the Company's success in the short term, while also securing the long-term objectives of the Company.

Benchmarking

The remuneration of Management Board and 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. 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 for Management and Executive Board members is set between the 50th and the 75th percentile.

The remuneration of Supervisory Board members is benchmarked against a reference group of Dutch and other European companies that are comparable in size and complexity, as well as Russian and world leading retailers. In order to attract the most talented individuals with the necessary international experience, knowledge and ability, Supervisory Board fees are set between the 50th and the 75th 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 Management Board members. For companies in other industries, this will be different. Furthermore, pay ratios can be volatile over time, as they can be heavily dependent on the Company's annual performance since that performance impacts the remuneration of the Management Board (and Executive Board) much more than of all other employees.

Changes in Management Board remuneration

At the 2019 Annual General Meeting of Shareholders, both Igor Shekhterman and Frank Lhoëst were reappointed for, respectively, two- and four-year terms, while Quinten Peer was appointed as a new director for a four-year term. Upon his reappointment, Mr Lhoëst’s base salary increased in line with compensation levels in peer group companies. Further information on remuneration in 2019 is explained below under “2019 Management Board remuneration”.

Changes in Supervisory Board remuneration

The table below reflects the total remuneration of each member of the Supervisory Board in the five most recent financial years (in millions of Russian roubles).

	2019	2018	2017	2016	2015
Stephan DuCharme	40	39	34	42	11
Mikhail Fridman ¹	—	—	—	—	—
Geoff King	36	35	34	36	21
Peter Demchenkov	31	24	20	11	8
Mikhail Kuchment	15	13	24	9	3
Andrei Elinson ¹	—	—	—	—	—
Karl-Heinz Holland ²	11	4	—	—	—
Nadia Shouraboura ²	12	4	—	—	—
Alexander Torbakhov ³	17	—	—	—	—

- 1

Mikhail Fridman and Andrei Elinson, in their role as representatives of CTF Holdings S.A., have waived any entitlement to Supervisory Board remuneration, whether in cash or restricted stock units.
- 2

Karl-Heinz Holland and Nadia Shouraboura were appointed by the General Meeting of Shareholders on 30 August 2018.
- 3

Alexander Torbakhov was appointed by the General Meeting of Shareholders on 10 May 2019.

Since the last revision of the Supervisory Board’s remuneration in 2010, the Company evolved into a leading Russian retailer, with a Board profile that reflects X5’s ambition to be fit for the future. In view thereof, the Supervisory Board proposed an adjustment of the Supervisory Board fees to the General Meeting of Shareholders in 2019, based on an external benchmark analysis commissioned by the Nomination and Remuneration Committee. Further details are reflected below under “2019 Supervisory Board remuneration”.

2019 Management Board remuneration

The Management Board remuneration for 2019 is in accordance with the remuneration policy for members of the Management Board.

The following table provides an overview of the Management Board’s remuneration that became unconditional in 2019 or at year end (in millions of Russian roubles).

NAME	YEAR	BASE SALARY (1)	SHORT-TERM INCENTIVE (2)	LONG-TERM INCENTIVE (3)	SHARE-BASED COMPENSATION (4)	SOCIAL SECURITY COST	TOTAL
Igor Shekhterman	2019	76	53	97	—	33	259
	2018	60	59	183	1	44	347
Frank Lhoëst	2019	22	13	—	—	—	35
	2018	20	13	—	—	—	33
Quinten Peer	2019	6	4	—	—	—	10
	2018	—	—	—	—	—	—
Total	2019	104	70	97	—	33	304
	2018	80	72	183	1	44	380

Ad (1)

Base salary

Base salaries are in line with compensation levels in peer group companies, based on the salary benchmarking survey conducted annually.

As described earlier in this report, the composition of the Management Board changed in 2019. At the 2019 Annual General Meeting of Shareholders, both Igor Shekhterman and Frank Lhoëst were reappointed for a new term of, respectively, two and four years. Upon reappointment, Mr Lhoëst’s base salary was set at EUR 315,000 in line with compensation levels in peer group companies. At the same shareholders meeting, Quinten Peer was appointed on a 50% FTE basis, with an annual base salary of EUR 137,500. In 2020, Mr Peer’s annual base salary amounts to EUR 275,000 on an FTE basis.

For Igor Shekhterman, the total remuneration in the table includes remuneration paid in the Netherlands and Russia: as a Russia-based member of the Management Board, Mr Shekhterman also has a contract of employment with an operational subsidiary in Russia. Under this contract 75%, of his total base salary as well as variable remuneration components are paid in Russia. No other remuneration has been granted or allocated by subsidiaries or other companies whose financials are consolidated by the Company to members of the Management Board.

Ad (2)

Short-term incentive

Short-term incentives are based on results achieved in 2019 and payable in 2020. For 2019, the Supervisory Board determined that 50% of the total on-target bonus opportunity for the CEO and other members of the Executive Board depends on achieving financial performance measures, and 50% on non-financial performance measures, with revenue and profitability thresholds as a condition for payout. Financial performance criteria are like-for-like sales and return on investment (ROI), each equally weighted, reflecting the Company’s strategic direction to balanced growth through CVP improvements, operational efficiencies and digital transformation. As part of the Company’s strategic objective to achieve leadership in both customer and employee recognition, non-financial performance measures are net promotor score (NPS) and staff turnover metrics, each equally weighted. 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. X5 does not disclose the actual targets per performance measure, as this is considered to be commercially sensitive information.

For the Company Secretary, the STI is based on individual, function-related performance measures with revenue and profitability thresholds as a condition for STI payout. The total on-target bonus opportunity for the COO of X5 Retail Group N.V. depends on return on investment as a financial performance measure with 30% weight, and individual non-financial performance measures with 70% weight, also with revenue and profitability thresholds as a condition for payout. The target payout as a percentage of base salary is set at a level of 100% for the CEO and 60% for the Company Secretary and the COO of X5 Retail Group N.V.

The achievement of performance targets was assessed and determined by the Supervisory Board for each Management Board member individually. For the 2019 reporting year, the revenue and profitability thresholds as a condition for payout were met.

For Igor Shekhterman (CEO) the achievement levels of financial performance targets set for 2019 were as follows: 58.2% for like-for-like sales and 91.8% for ROI. The achievement levels of non-financial targets NPS and staff turnover were, respectively, 87.3% and 133.4%. Due to achievement of performance targets like-for-like sales and NPS below target thresholds, this leads to a payout level of 56% of target payout (or base salary) for Igor Shekhterman. Taking into account the Company's overall performance in 2019, with strong like-for-like sales growth in comparison to the market, the Supervisory Board applied its discretion to increase the payout with 20% of target payout. This results in a total cash payout of 76% of the target payout (or base salary) for Mr Shekhterman.

For Frank Lhoëst (Company Secretary) the individual performance targets were achieved at target level, which results in a cash payout of 100% of the target payout, or 60% of base salary.

For Quinten Peer (COO X5 Retail Group N.V.) the achievement level of financial performance target ROI was 91.8%. The average achievement level of individual non-financial performance targets was above target. This results in a cash payout of 101% of target payout for Mr Peer, or 60.6% of base salary.

Ad (3)

Long-term incentive

For the CEO, the long-term incentive amount in 2019 was composed of a final deferred payout under the 2015–2018 LTI programme (RUB 37 million) as well as an accrual-based amount under the current 2018–2020 LTI programme (RUB 75 million), in line with IFRS reporting requirements (see note 28 "Staff costs" on pages 310–314).

The 2015–2018 LTI Programme came to an end when targets were achieved in 2017. Under the programme's deferred payout mechanism, 50% of the total award under the second stage of the programme was paid in 2018, with a final 50% deferred payout in 2019. Payouts were based on achieving and maintaining revenue leadership targets throughout 2018, with an EBITDA threshold to protect profitability.

The current LTI is a cash incentive programme over a three-year period from 1 January 2018 until 31 December 2020, also 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. Targets under the LTI are structured to align the long-term interests of shareholders and management, with enhanced focus on sustainability and strategic objectives that contribute to long-term value creation for the Company. This is translated into performance criteria geared to 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.

Members of the Management Board based in the Netherlands do not participate in the LTI Programme.

Ad (4)

Share-based compensation

Members of the Management Board are no longer entitled to restricted stock units or other share-based compensation. The share-based compensation in the table below reflects the restricted stock units awarded to Mr Shekhterman in his previous role as a member of the Supervisory Board.

Restricted stock units awarded and outstanding to members of the Management Board

	Tranche	RSUs awarded in 2014	RSUs awarded in 2015	RSUs awarded in 2016	Year of vesting	RSUs vested	Value on vesting date ¹	GDRs locked up as per 31/12/2019 ²	End of lock-up period	RSUs outstanding as per 31/12/2019	RSUs outstanding as per 31/12/2018
I. Shekhterman	4	7,384	—	—	2016	7,384	9	—	2018	—	—
	5	—	15,793	—	2017	15,793	33	—	2019	—	—
	6	—	—	11,396	2018	11,396	21	11,396	2020	—	—

- 1

The vesting date is 19 May of each respective year of vesting. If 19 May falls on a weekend, the vesting date is the immediately following business day (in 2018, 21 May; in 2019, 20 May).
- 2

The number of GDRs held during the lock-up period is equal to the number of vested RSUs minus GDRs sold to cover taxes, if any.

2019 Supervisory Board remuneration

In 2019, the remuneration policy for members of the Supervisory Board was applied, taking into account the adjusted base fees approved by the 2019 Annual General Meeting of Shareholders.

The following table provides an overview of the Supervisory Board's remuneration that became unconditional in 2019 or at year end (in millions of Russian roubles).

NAME	POSITION	(1) BASE REMUNERATION		(2) SHARE-BASED COMPENSATION		TOTAL REMUNERATION	
		2019	2018	2019	2018	2019	2018
Stephan DuCharme	Chairman	19	20	21	19	40	39
Andrei Elinson ¹		—	—	—	—	—	—
Mikhail Fridman ¹		—	—	—	—	—	—
Geoff King	Chairman, Audit and Risk Committee	18	19	18	16	36	35
Peter Demchenkov	Chairman, Nomination and Remuneration Committee	17	15	14	9	31	24
Mikhail Kuchment		8	7	7	6	15	13
Karl-Heinz Holland		7	4	4	—	11	4
Nadia Shouraboura		8	4	4	—	12	4
Alexander Torbakhov ²	Chairman, Innovation and Technology Committee	14	—	3	—	17	—

- 1

Mikhail Fridman and Andrei Elinson, in their role as representatives of CTF Holdings S.A., have waived any entitlement to Supervisory Board remuneration, whether in cash or restricted stock units.
- 2

Alexander Torbakhov was appointed by the Annual General Meeting of Shareholders on 10 May 2019, and remunerated as of 25 January 2019, the date of his nomination by the Supervisory Board.

Ad (1)

Base remuneration

Supervisory Board fees are set at an appropriate level to attract individuals with the necessary international experience, knowledge and ability to make a significant contribution to the Company’s strategy, long-term developments and sustainability. In 2019, the General Meeting of Shareholders approved an adjustment of the Supervisory Board fees based on an external benchmark analysis commissioned by the Nomination and Remuneration Committee. This resulted in the following fee schedule, effective 1 June 2019:

ROLE	FEE (EUR)
Supervisory Board Chair	250,000
Supervisory Board Member	100,000
ADDITIONAL ALLOWANCE FOR:	
Supervisory Board Vice-Chair	50,000
Committee Chair	100,000
Committee Member	16,000

In December 2019, the Board resolved to dissolve the Related-Party Committee as of 1 January 2020 and to integrate its responsibilities into the overall remit of the Audit and Risk Committee.

Ad (2)

Share-based compensation

The share-based compensation reflects the accrued amounts related to the Restricted Stock Unit Plan (see table below).

All remunerated Supervisory Board members are entitled to equity in the form of restricted stock units (RSUs). This structure aligns the interests of Supervisory Board members with those of shareholders and strengthens their commitment to, and confidence in, the future of the Company. Equity-based awards given to members of the Supervisory Board are not subject to performance criteria and are determined by the General Meeting of Shareholders.

The number of RSUs awarded in each given year is based on 100% of the respective Board member’s fixed annual remuneration divided by the average market value* of a GDR on the relevant award date. RSU awards are subject to a three-year vesting period and a further two-year lock-in period. RSU awards to members of the Supervisory Board are not subject to performance criteria and are determined by the General Meeting of Shareholders.

In 2019, following the appointment of Karl-Heinz Holland and Nadia Shouraboura as Supervisory Board members in 2018, the General Meeting of Shareholders approved 2018 RSU awards to Mr Holland and Mrs Shouraboura equal to 100% of their pro rata annual remuneration in 2018 divided by USD 30, the average market value of one GDR as of 21 May 2018. These RSUs were awarded under tranche 9 and will vest in 2021, followed by a lock-in period ending in 2023.

Furthermore, the General Meeting of Shareholders approved the 2019 RSU awards under tranche 10, meaning that the Supervisory Board members Stephan DuCharme, Peter Demchenkov, Geoff King, Mikhail Kuchment, Karl-Heinz Holland, Nadia Shouraboura and Alexander Torbakhov were awarded a number of RSUs with an award date of 19 May 2019 equal to 100% of the gross annual remuneration of the relevant Supervisory Director in 2019 divided by USD 30.87, the average market value of one GDR as of 20 May 2019. The RSUs awarded under tranche 10 will vest in 2022, followed by a lock-in period ending in 2024.

* The average market value is defined as the volume weighted average price of a GDR over the 30 calendar days immediately preceding the award date. The volume weighted average price is calculated using the closing price of a GDR taken from the Official List of the London Stock Exchange.

	Tranche	RSUs awarded in 2016	RSUs awarded in 2017	RSUs awarded in 2018 ³	RSUs awarded in 2019 ⁴	Year of vesting	RSUs vested	Value on vesting date ¹	Vested GDRs after tax	GDRs locked up as of 31/12/2019 ²	End of lock-up period	RSUs outstanding as of 31/12/2019	RSUs outstanding as of 31/12/2018
Stephan DuCharme	7	25,703	–	–	–	2019	25,703	53	13,257	13,257	2021	–	25,703
	8	–	9,631	–	–	2020	–	–	–	–	2022	9,631	9,631
	9	–	–	9,977	–	2021	–	–	–	–	2023	9,977	9,977
	10	–	–	–	9,722	2022	–	–	–	–	2024	9,722	–
Geoff King	6	13,250	–	–	–	2018	13,250	25	8,749	8,749	2020	–	–
	7	14,280	–	–	–	2019	14,280	29	9,449	9,449	2021	–	14,280
	8	–	8,026	–	–	2020	–	–	–	–	2022	8,026	8,026
	9	–	–	9,977	–	2021	–	–	–	–	2023	9,977	9,977
Peter Demchenkov	10	–	–	–	9,373	2022	–	–	–	–	2024	9,373	–
	6	5,698	–	–	–	2018	5,698	11	3,762	3,762	2020	–	–
	7	5,712	–	–	–	2019	5,712	12	3,779	3,779	2021	–	5,712
	8	–	5,618	–	–	2020	–	–	–	–	2022	5,618	5,618
Mikhail Kuchment	9	–	–	7,982	–	2021	–	–	–	–	2023	7,982	7,982
	10	–	–	–	8,942	2022	–	–	–	–	2024	8,942	–
	7	5,712	–	–	–	2019	5,712	12	3,779	3,779	2021	–	5,712
	8	–	3,210	–	–	2020	–	–	–	–	2022	3,210	3,210
Karl-Heinz Holland	9	–	–	3,991	–	2021	–	–	–	–	2023	3,991	3,991
	10	–	–	–	4,099	2022	–	–	–	–	2024	4,099	–
	9	–	–	1,995	–	2021	–	–	–	–	2023	1,995	–
	10	–	–	–	3,749	2022	–	–	–	–	2024	3,749	–
Nadia Shouraboura	9	–	–	1,995	–	2021	–	–	–	–	2023	1,995	–
	10	–	–	–	4,099	2022	–	–	–	–	2024	4,099	–
Alexander Torbakhov	10	–	–	–	7,365	2022	–	–	–	–	2024	7,365	–

1 The vesting date is 19 May of each respective year of vesting. If 19 May falls on a weekend, the vesting date is the immediately following business day (in 2018, 21 May; in 2019, 20 May).

2 The number of GDRs held during the lock-up period is equal to the number of vested RSUs minus GDRs sold to cover taxes, if any.

3 2018 RSUs for Karl-Heinz Holland and Nadia Shouraboura were effectively awarded in 2019, as both were appointed as Supervisory Board members after the award date in 2018. The awards were based on a 6/12 pro rata factor.

4 For Alexander Torbakhov, a pro rata factor of 11/12 was applied for the 2019 RSU award.

Remuneration by subsidiaries or other companies

No remuneration has been granted and allocated by subsidiaries or other companies whose financials are consolidated by the Company to members of the Supervisory Board.

Loans

The Company has not granted any (personal) loans to, nor has it granted any guarantees or the like in favour of, any of the members of the Management Board or the Supervisory Board.

Claw-back variable remuneration

No variable remuneration has been clawed back.

Severance payments

No severance payments were granted to members of the Management Board or the Supervisory Board.

2020 outlook

We will present this remuneration report to the General Meeting of Shareholders in 2020 for an advisory vote. The Supervisory Board will also submit the remuneration policies for the Management Board and the Supervisory Board updated in accordance with SRD II.

In 2019, both remuneration policies were applied, and it is the intention that they will be continued in the next financial year.

In 2019, X5 made significant progress in achieving the long-term strategic goals set by the Supervisory Board under the long-term incentive plan. With the programme coming to an end on 31 December 2020, the Nomination and Remuneration Committee will, over the course of 2020, reflect on a programme extension taking into account the Company's long-term strategic objectives. Meanwhile, due to the rapidly changing environment in which the Company operates, the Supervisory Board recognises the challenge of constantly evolving targets and performance criteria to secure sustainable growth and long-term value creation for the Company.

The Supervisory Board
18 MARCH 2020

