

## **MANAGEMENT BOARD REMUNERATION POLICY 2022** **(PROPOSED CHANGES TO THE REMUNERATION POLICY IN RED)**

### **Introduction**

The Supervisory Board, based on a recommendation of its Nomination and Remuneration Committee, has prepared an amendment of the remuneration policy of the Management Board for adoption by the 2022 Extraordinary General Meeting of Shareholders . Subject to adoption, this remuneration policy will take (retro-active) effect from January 1, 2022.

The Supervisory Board resolved that the remuneration policy for the Management Board shall in principle also apply to members of the Executive Board. In view of the relative size and composition of both boards, this Policy refers to the Executive Board unless specific provisions apply to members of the Management Board only, which will be clearly indicated.

### **Objectives**

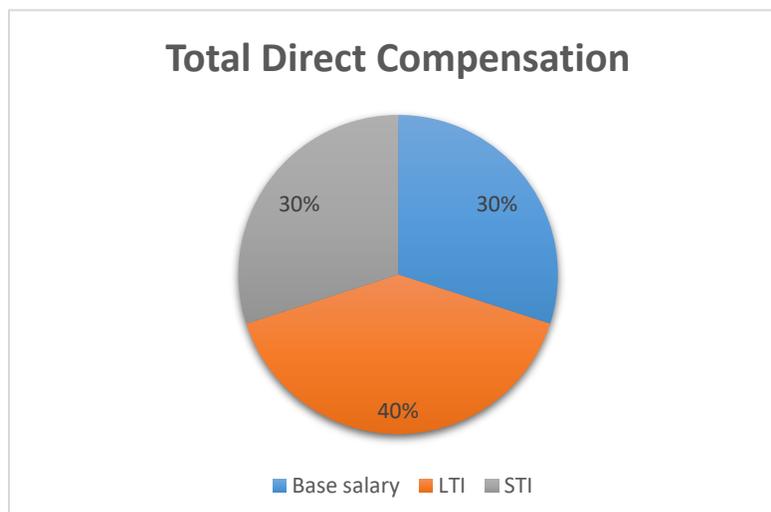
The remuneration policy for members of the Executive Board is aligned with the Company's strategy and supports the long-term development of the Company, while aiming to be effective, transparent and simple. The objective of the remuneration policy is twofold:

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

### **Elements of remuneration**

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

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



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

### **Benchmarking**

The basic components of the Total Direct Compensation provided to Executive Board members is benchmarked against the labour market peer group every year. As a Company with operations mainly in Russia, the reference group created for the benchmarking is composed of Russian companies equivalent in terms of size of business and complexity of operations. In total, the reference group is composed of 39 companies in various sectors including retail (20%), financial (26%), industrial (23%), digital and telecommunication (23%) and transportation and logistics (8%) To accommodate potential changes in the labour market peer group due to de-listings, mergers or other extraordinary circumstances, the Supervisory Board may exercise discretion to substitute comparable companies within the peer group.

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

Although external market data provide useful context, it is ultimately the responsibility of the Supervisory Board to determine remuneration packages at an appropriate level that reflect the skills, level of responsibility and performance of each individual. As we aim to recruit and retain the most qualified talent available, the target Total Direct Compensation level is set between the 50<sup>th</sup> and the 75<sup>th</sup> percentile. For the current CEO, the Supervisory Board resolved to make an exception in recognition of the size and complexity of X5. Subject to his re-appointment for a two-year term at the 2021 AGM, the CEO's total direct compensation shall be set, in case of on-target performance, at the 90<sup>th</sup> 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 the compensation levels of the CEO and other Executive Board members.

### **Base salary**

The base salary of the CEO and the other members of the Management Board is determined by the Supervisory Board. Base salaries of Executive Board members -not being a member of the Management Board- are determined by the CEO within salary ranges reviewed and approved by the Supervisory Board on an annual basis. Within the approved salary ranges, base salaries for the Executive Board members -not being a member of the Management Board- are fixed by the CEO. Base salaries of Executive Board members are benchmarked on an annual basis and are

reviewed and, if necessary, adjusted. Base salaries reflect the level of responsibility, skills, experience and performance of each executive. Base salaries may exceed the maximum point of a salary range in specific circumstances which may include internal promotions, material growth within the role, or significant changes to the scope and responsibility of a role. Any such salary increase is subject to Supervisory Board approval.

### **Short-term incentive (STI)**

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

Performance measures are aligned with the Company's strategic objective to deliver sustainable value to shareholders and other stakeholders, and include financial measures and measures driving the Company's strategic objectives. At the beginning of each financial year the Supervisory Board determines the performance measures and their relative weight, and the targets to be achieved for each performance measure, based on X5's business priorities for that year. For each measure, performance ranges are set, i.e. the value below which no pay-out will be made (the threshold), the on-target value and the maximum payout level.

Financial measures comprise components related to the Company's operational performance, such as sales growth, revenue, CAPEX and return on investment (ROI), with an EBITDA target serving as threshold. These metrics typically reflect X5's goal to expand market share while focusing on margins to increase profitability and prudently managing capital spending and expenses. In addition to the financial metrics, the short-term incentive includes specific goals for key imperatives that reflect and support the Company's strategic objectives. In support of the Company's aim for leadership in customer, employee and shareholder recognition, such metrics may include, at group and/or divisional level, Net Promotor Score, level of digitalization to achieve business efficiencies, online performance and sustainability targets. All 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 would require the disclosure of commercially sensitive information.

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

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

### **Long-term incentive (LTI)**

The CEO and other members of the Executive Board participate in the Company's long-term incentive programme. Under the LTI, performance is measured and cash awards are paid after a revolving three year performance period, with a 50% deferred payout subject to maintaining achieved targets in the fourth year, with a profitability threshold as a condition for deferred payout. This creates a focus on long-term goals throughout the programme and provides an effective mechanism for motivating and retaining members of management who are critical to the ongoing success of the Company. Performance indicators under the programme have a one or three year vesting period.

Following the unexpected geopolitical developments taking place since February 2022, and their impact on the Company's trading and market capitalization, the Company re-assessed its strategic priorities and corresponding long-term performance measures and targets. As a result, LTI measures and their weights were adjusted as of 2022 as reflected in the tables below.

Targets under the LTI reflect the overall strategy of the Company to achieve leadership in customer recognition through continuously evolving value propositions in the food market, while setting the industry standard in digital transformation and omnichannel growth. Throughout the three-year cycle of the programme the long-term performance measure to support this strategy is sustained leadership in terms of market share, with profitability and net debt/EBITDA thresholds to remain focused on margins, business efficiency and prudent financial and balance sheet management. **The enterprise value multiple no longer being a meaningful leadership indicator for X5 as of 2022, it is replaced by Free Cash Flow in stage 2 of the programme, as an indicator of the Company's financial health and efficient financial management.** In both stages of the programme, the LTI includes sustainability targets to support the Company's ESG strategy.

The size of each individual cash award is based on the participant's annual base salary and LTI scale reflecting his/her role and position level, contribution to meeting the LTI targets at both individual and team level, with a maximum of 133% per year of the participant's base salary during the three-year programme.

LTI STAGE 1 (Jan –Dec 2021)

Performance measure	Weight	Definition	Thresholds	Link to strategy	Payout
EV/EBITDA multiple	50%	Leadership in multiple, calculated and accrued on an annual basis.	- Net debt/EBITDA - EBITDA margin	Long-term shareholder value creation through sustained leadership in the Russian food market, with 15% share in grocery and 20% share in e-grocery by the end of 2023.	In 2024 (50%) and 2025 (50%, subject to EBITDA threshold)
Market share	45%	X5 market share relative to competition in the Russian food retail segment throughout the programme, with annual revenue growth threshold. If the threshold is not achieved in the first year, 1/3 of target payout is not accrued. Minimum payout level is 60%, maximum is 140%, depending on achievement level.			
Sustainability	5%	To achieve by the end of 2023: 1) Reduced CO2 emissions by 10%; 2) The share of recycled solid waste is up to 95%; 3) The share of private label goods in sustainable packaging is >50%.		Achievement of ESG targets under X5's '30x30' Sustainability Plan.	

LTi STAGE 2 (Jan 2022 – Dec 2023) (added table below)

Performance measure	Weight	Definition	Thresholds	Link to strategy	Payout
Free Cash Flow (FCF), % of revenue	35%	Value to reflect the efficiency of the financial management. Minimum payout level is 80%, maximum is 120%, depending on achievement level.	- Net debt/EBITDA - EBITDA margin	Creating long-term shareholder value by striking the right balance between sustained leadership in the Russian food market, new business models, and prudent financial management.	In 2024 (50%) and 2025 (50%, subject to EBITDA threshold)
Market share	60%	X5 market share growth relative to competition in the Russian food retail segment throughout the programme. Minimum payout level is 80%, maximum is 120%, depending on achievement level.			
Sustainability	5%	To achieve by the end of 2023: 1) Reduced CO2 emissions by 10%; 2) The share of recycled solid waste is up to 95%; 3) The share of private label goods in sustainable packaging is >50%.			

**Other remuneration components**

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

**Contractual arrangements**

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

The severance payment is generally limited to a six month's base salary, however, the Supervisory Board may increase this to a maximum of one year's base salary if required under individual circumstances. For the CEO and other members of the Executive Board the severance pay is structured as a non-competition reward payable in quarterly instalments following contract termination for the CEO and semi-annual instalments following contract termination for the Executive Board members, subject to compliance with non-competition conditions. The non-competition period for the CEO is twelve months, and six months for other Executive Board

members. The CEO contract provides for a penalty in the amount of two annual base salaries in case of breach of the non-competition obligations. No severance pay will be awarded if the agreement is terminated at the initiative of the Management or Executive Board member, or in the event of seriously culpable or negligent behaviour on his/her part.

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

### **Legacy arrangements**

As disclosed when Igor Shekhterman took office as CEO in 2015, he shall be entitled to a minimum annual compensation package of USD 4,000,000. Should the minimum annual compensation exceed the total annual remuneration based on fixed and variable components, he shall be entitled to the difference upon completion of his full term as CEO. Furthermore, Igor Shekhterman is eligible to a termination compensation of up to USD 5,000,000 at the discretion of the Supervisory Board, repayable in case of breach of the non-competition obligations as described herein under "Contractual arrangements". **The Supervisory Board may at its discretion substitute the termination compensation for an extension bonus if and when an extension of Igor Shekhterman's CEO mandate is considered to be in the best interest of the Company under specific, extraordinary circumstances.**

### **Claw-back**

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

### **Insurance and indemnity arrangements**

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

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

### **Adoption and amendments**

This remuneration policy, and subsequent amendments thereto, shall be submitted for adoption by the General Meeting of Shareholders pursuant to a proposal of the Supervisory Board. The Nomination and Remuneration Committee is responsible for the development of the remuneration policy and making proposals to the Supervisory Board.

### **Deviations**

The Supervisory Board may decide to deviate from the remuneration policy, for instance when necessary to serve the long-term interests and sustainability of the Company as a whole or to assure its viability.