

X5 Retail Group N.V.
ESG
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Edited transcript

Speakers:

- Yana Synesiou, Sustainable Development Director
- Elena Konnova, Corporate Communications Director
- Igor Shekhterman, CEO
- Natalia Zagvozdina, Head of Corporate Finance and IR
- Andrey Vasin, Head of IR
- Ivan Kukhnin, Partner, Head of Sustainable Service, Risk Advisory at Deloitte CIS

Natalia Zagvozdina:

Ladies and gentlemen, good afternoon and welcome to X5's first webcast dedicated to the update on our ESG strategy that X5's board approved last year in December. At its recent September meeting, our supervisory board approved ESG goals, which we will present today, as well as the progress the company has made in this respect so far this year. Moving forward, we plan to hold regular investor events on the topic of ESG. And of course, X5 is always open to your ad hoc enquiries about our ESG matters.

On today's call, we have the speakers Igor Shekhterman, the company CEO; Elena Konnova, Corporate Communications Director; Yana Synesiou, Sustainable Development Director; and Mr Ivan Kukhnin, Partner, Head of Sustainability Service, Risk Advisory at Deloitte CIS, who will help my IR colleague Andrey Vasin to moderate the Q&A session today.

The format of today's webcast will be the following. We begin with a 20-25-minute presentation and do the Q&A afterwards. You have a field in your webcast window, in the upper right window, where we invite you to post your questions. X5's CEO Igor Shekhterman will open our ESG discussion today. Igor, please go ahead.

Igor Shekhterman:

Thank you, Natalia; hello everybody. Just on behalf of our team, I would like to thank you, that you have managed to join us for today's call; we really appreciate it. The second wave of COVID-19 begins to spread very rapidly, and I wish you and your families the very best of health, and I want you and your loved ones to feel safe and secure.

Let us start. X5 is a recognised leader in the Russian retail market, and we have unprecedented scale. We have more than 70,000 stores across 3,000 locations, and over 14 million people shop with us every day. Our staff consist of more than 300,000 employees. Our mission is to improve people's quality and life by offering affordable, healthy products and delicious food. We also want to help out with everyday routine tasks. We understand the significance of our scale, and of course due to COVID-19, we just need to be extremely focused on safety in our stores for our employees and for our customers. Our actions and decisions can have a big impact on our planet

and society, and we understand that. This is one of the reasons why we have put sustainable development at the core of our business.

In December 2019, the supervisory board approved the company's sustainable development strategy. Just a couple of weeks ago, we approved targets and metrics for each of our goals. Today, we will share them in our presentation. I am happy that our ESG strategy is an important part of the general X5 strategy that we have developed for 2020-2023. Part of our strategic targets connect directly to our ESG metrics. We will give you our progress in sustainable development, at least twice a year, at the level of the supervisory board. We believe that our efforts will produce important results for X5 and for our stakeholders.

We choose to use UN's 17 sustainable development goals as a framework for our strategy. These 17 SDGs are recognised around the world, as the most universal and comprehensive framework, when it comes to ESG. In fact, since March 2020, we became the first Russian retailer who officially joined UN global compact, to show our long-term commitment. We have done a detailed analysis to identify the goals that are most relevant for our company. We selected the ones where we will have the greatest positive impact on the environment and society. We also relied on the opinions of our customers and employees. We conducted research and surveys regarding which areas are most relevant to where.

As a result, we decided to focus on four main goals. By working towards these goals, we will also have an indirect impact on achieving our seven secondary goals. So, X5 will focus on our four goals. Zero hunger: through our support of local commitments, communities, which includes the development of social investment and charitable projects, such as Food Drive. Health and wellbeing: we already promote a healthy lifestyle; we offer a wide selection of high-quality and healthy goods. We are also expanding our assortment in the fresh fruits and vegetables and healthy lifestyle categories. Decent working conditions and economic growth: X5 employs over 300,000 people; we aim to ensure decent working conditions and equal opportunities. We also want to provide them with meaningful career development opportunities. And finally, promotion of rational use and sustainable consumption of resources. We must do our part to contribute to the global environment issue. We will do this by setting development goals and delivering on specific targets, in areas like reducing CO2 emissions, energy efficiency, lower waste generation, recycling and development of our sustainable supply chain.

X5 goals are also in line with the Russian National Development Goals that were set this July. For instance, by supporting our community and promoting a healthy lifestyle, we contribute to the Russian national goals of preservation of health and wellbeing. Our work on the sustainable use of resources will help ensure a comfortable and safe living environment. Since approving our strategy in December 2019, a lot has already been done. We have been developing specific metrics to monitor progress. Those metrics were incorporated in our strategy to 2023, and now we have our main focus in the near future, but we also have not waited to start working on

achieving certain milestones. Elena and Yana will share more information on that in a few minutes.

Before I hand it over to them, I wanted to share our long-term vision for sustainable development in our company. We will call this "30 by 30." As I said earlier, sustainable development has become part of our core decision-making process. It is integrated into our entire e-business process. Our commitment goes beyond certain points. We have a clear vision of what we want to achieve by 2030, with the long-term goals included. 30% reduction of CO2 emissions for scope 1 and scope 2. Further renewable energy in our own logistics operation. Such a reduction of waste generation to retail sales co-efficient. And we aim to achieve an annual growth rate in the number of families supported through our Basket of Kindness as high as 30% in some years.

We are also committed to monitoring the responsible origin of suppliers' goods, expanding our assortment of healthy lifestyle products, maintaining a number-one position in employee ratings among Russian food retailers, and ensuring the implementation of the property standard for the Organisation of Healthy and Safe Workspace for our employees.

These goals are clearly ambitious, but we believe we are already on the right path to achieving them. You must actively maintain a dialogue on sustainable development and social responsibility. For this process, society gives X5 its license to operate. In the modern world, a company has to deserve and prove its right to do business. We can do this through dialogue and contribution to solving the issues. This approach will help ensure the long-term sustainability of our business. As a market leader, we understand that we are not only responsible for our activities in society; in many ways, we set the bar for the entire industry. We are committed to helping those in need. Helping our customers to be more eco-friendly and to practice responsible consumption and resources usage, and help them lead healthy lives.

Thank you for your attention. Now, Elena will share some of the details, on the metrics we have set until 2023.

Elena Konnova:

Thank you, Igor. As Igor has mentioned earlier, we have made a lot of progress in bringing our strategy to life. When doing so, we have had two main work streams. Firstly, assessing our processes to set targets and develop specific methodologies. And the second stream consisted of practical actions like piloting and launching numerous projects. For instance, we piloted a number of projects in the ecological sphere, such as recycling plastic bags and baskets, informing and educating our customers and teaching our employees. You can find all the details on the progress in our sustainability report on our website. Yana will also give some flavour on those projects later on. One of the key things that have been achieved is setting up specific metrics for each of our ESG goals until 2023.

A few words on how these were set. We have done a comprehensive exercise in understanding our processes to really identify gaps and the areas for improvements. Having worked closely with responsible functions across the company, as well as external experts, we set quite ambitious but achievable targets for each of our ESG goals.

One of our four goals is to promote rational use of resources and sustainable consumption. The goal is quite extensive, as it covers different areas including waste management, emissions and others.

If we talk about emissions, we have made an audit to understand what emissions we have. We calculated our scope 1 and scope 2 emissions, according to the international GHG protocol for 2018 and 2019. It has shown up in a lot of international benchmarks. While our reduction for 2019 was 3%, we want to further reduce our emissions to 10% by 2023. We also are keen to start using renewable energy in our operations. We're currently piloting a switch of a few of our DCs to green ones, and based on that, we will be able to set the target. We have set a few other targets in regards to rational use of resources.

If we talk about waste reduction; here we identified three main targets. Firstly, we aim to send up to 95% of our recyclable solid waste to be recycled. We want to decrease the share of waste to retail sales by 10%, and we want to increase the amount of food waste sent for utilisation to 40%. The food waste recycling initiative is actually quite new for us; we only started it a year ago, and it is proving to be very successful, and we want to continue growing it.

If we talk about a sustainable supply chain, we have focused on both the packaging of products, as well as the origin of where the products came from. To better understand the matter, we took a step back and did a deep dive into what kind of certificates are out there, and what constitutes sustainable packaging. And there is no uniform Russian guideline. We relied on European guidelines that outline their recommendations as well as a number of western benchmarks. We asked our top 30 suppliers, to understand their perspective on the matter, and then led a public discussion with all the shareholders from the value chain, from the producers of raw materials to the recycling companies, to discuss their opinion on those two subjects. And we together verified what sustainable packaging was.

Based on all that was done, we identified the recommended certification as well as our definition of sustainable packaging, and we added that to our web purchasing policy. And now, we are in open dialogue with our suppliers on what products they already have in this packaging, and what we need to be further improved. Having done all of that, we will be able to set the target of how many of our suppliers will have sustainable packaging or certified products by 2023.

However, the next step we want to achieve is to calculate the actual number of SKUs on our shelves that fit the criteria of sustainable packaging or come from a sustainable origin. Once we do this, we will be able to enrich our metrics further. For our private label, we managed to complete this calculation. We analysed over 200 suppliers that produce for us over 2,000 private-

label SKUs. Based on their analysis, we believe that we can achieve over 15% of private-label products with sustainable packaging in 2023.

Let's move to our next goal: health and wellbeing. Our goal is to promote a healthy lifestyle and ensure the availability of high-quality healthy products. If I talk about our goal of health and wellbeing, the main metrics we chose was a share of fresh fruits and vegetables which we are planning to grow to 50% by 2023. We are also going to focus on the expansion of our healthy lifestyle assortment. The next goal is supporting communities through increased social investments and charitable programmes. The main metrics are related to our current programmes. We want to double the number of families that receive food aid, and we also want to make sure that our footprint is growing. We have all of our Pyaterochka stores engaged in a missing persons initiative. We are planning to develop a new programme as part of the updated CVPs of our retail chain and come back with more metrics once those programmes are finalised.

Last, but not least, is our goal to ensuring decent working conditions and equal opportunities for employees. We want to focus on growing our employee engagement, which is a comprehensive metric included in various aspects of work environments. And we want to make sure that we are employer number one in Russian retail rankings. We also want to make sure that all of our workplaces for employees are made to be healthy and safe. The work that we have done did not go unnoticed, and we saw major improvements in our ESG ratings over last year. For instance, the MSCI rating upgraded us to a BB rating, while Bloomberg and RobecoSam gave us up to a 4% increase in score. According to one of the oldest investor ratings, Institutional Investor, X5 was named the best ESG company in the emerging EMEA region this year, overtaking 92 others.

Now I would like to hand things over to Yana, who will give more flavour around the progress we made over the last six to nine months.

Yana Synesiou:

Thank you, Elena. As my colleagues pointed out, a lot has been done to set out targets, but it wasn't the only area that we worked on over the last few months. For example, to promote responsible consumption and rational use of resources, we focused a lot on reduction of waste sent to landfills. This we approached from a few angles. Firstly, we conducted a detailed risk assessment of waste management processes across our company. We did this through an internal audit of our sites and facilities. We benchmarked our processes against the best across retailers, and calculated total waste by type and function in order to better understand the most relevant metrics and targets. We implemented the new waste minimisation policy, and a waste minimisation procedure with clear identifications of roles and responsibilities for relevant parties. We have also designed a waste management training, to educate our employees better on the updated processes and standards.

Those efforts are again backed by numbers, for example, we increased the amount of solid waste recycle by 35% over the last year, as well as tripling, that is increasing three times the amount of

food waste sent for reprocessing. In 2019, we transferred over 13,000 tonnes of unsold products to farmers, and the number is now growing in double digits year-on-year. We are actively developing our waste collection infrastructure. For example, our e-commerce store Perekrestok.Vprok launched a plastic bag collection service when delivering orders. All of the bags collected then get sent to recycling. We are also piloting our reverse vending machines, so far, in a six-month period, we have managed to collect over 750 kilos for recycling. Following the pilot project, and based on our customer feedback, across the retail chain, we have produced a plastic bag containing 35% recycled material. Now, it is a compulsory requirement for all of our suppliers to use a high content of recycled materials.

The same process is happening in Pyaterochka now. To reduce consumption of disposable plastic further, we have implemented a project, to promote reusable bags and weighing sacks for fruits and vegetables. We encourage the purchasing of those bags through increasing the loyalty points for our customers. In six months of 2020, X5 retail chains sold more than two million reusable bags and over 145,000 reusable weighing sacks for fruits and vegetables. Our new concept stores use shopping baskets made completely of recycled material, and it is a mandatory requirement for all of our new stores.

Another important area is reduction of energy consumption. As Elena mentioned, we have conducted a detailed calculation of our greenhouse emissions, according to the best in-class GHG standard. We calculated the figures for 2018, and 2019, and realised that we are actually on par with the best in-class international retailers, which gives us a very solid base to start from. Thirdly, through our responsible supply chain, we developed a detailed recommendation on packaging and certification. We went through a comprehensive process that Elena talked about, and became the first retailer in Russia to publish the recommendations. We issued separate educational materials to all of our suppliers. We have implemented a dedicated sustainable development course for our commercial functions internally and for external business partners, to make sure that everyone is aware of the right focus.

Our next step is to give out detailed recommendations for each of the separate categories, then we can incorporate the specifics of the category into our recommendations. It is very important for us to educate our customers and employees on sustainable consumption. To do so, we launched an interactive course with UNITAR and Danone, and within the first few weeks, over a thousand people have gone through that course. In order to establish an ongoing channel with all of our customers and receive their feedback, we have now incorporated a number of ESG related questions into our NPS tracker. So, from the first quarter of 2021, whenever we go through an NPS tracker, questions, such as where the customers believed that X5 was helping them live a sustainable life, will be asked on a continuous basis.

For our goal of health and wellbeing, we started a big pilot of healthy lifestyle corners in the supermarkets. We also launched a number of other products, such as a Nutritious Food Basket, which is a set of food products that provide the recommended daily intake of calories, proteins,

fats and carbohydrates for a month for an adult. The other interesting project that we have launched is a healthy habits route, which is basically an in-store route that helps highlight with special signage, the products that support a healthy and balanced diet, as well as motivating customers towards responsible consumption and rational use of resources.

If we talk about our goal of supporting employees, we actually launched an online course on sustainable development and this course has already been made mandatory for all of our office and stores employees. The course helps the employees to understand what sustainable development is and what X5's strategy is, and really points out what each and every one of us can do to make it better. We will continue to run programmes in the following areas; developing corporate culture and values, boosting employee engagement, as well as heavily focusing on feedback channels, such as eNPS and CSI.

In 2020, X5 introduced a system of grades to make its position and capability requirements more transparent for everyone. We changed the way we arrange and design staff break areas, so our new concept stores feature more spacious, better equipped, more functional and comfortable staff areas. Moreover, during the COVID-19 outbreak, we were one of the first companies in Russia to arrange for 95% of our office employees to work remotely, starting from March 2020. We also managed to launch a Home Office project, enabling our employees to mix office and remote work whenever they wanted to. And last but not least, for our goal of supporting local communities, we have advanced our effort in our current programmes; that is the Basket of Kindness and our social programme to help find missing people.

X5 gathered nearly 145 tonnes of food, that is over 24,000 food sets, and donated them to people in need, as part of our Basket of Kindness Project. We also helped over 700 people return home as part of our programme for lost and disoriented people. Moreover, during the COVID pandemic, we have launched a number of initiatives to support our local communities, that includes scheduling a Basket of Kindness, the supply of a various number of parcels, whether it was 3,500 parcels to doctors or free delivery of teas and coffees to hospitals and to other medical workers. As you can see, a lot has been done for each of the goals, and I can go into more detail, if needed, so do let me know if you have any questions.

Ivan Kukhnin:

Hello everyone, thanks a lot Igor, thanks a lot Natalia, Yana and Elena. First of all, thanks for having me here. I guess, look, we see a very big rise in interest in ESG from many companies we work with, and I think it all really boils down to two things; responsibility and transparency. And I think on transparency, many Russian companies do well, you know, they report a lot and disclose a lot, however it's on responsibility, I think, where the business needs to do better, and I'm thrilled to see that you followed up on your strategy and you're presenting your goals and you've got your ongoing progress monitoring and reporting, and I think that's the appropriate approach to ESG, because it's not something which can be fixed quickly, it's something which needs to be continuously worked on.

With that in mind, I think I want to ask a first question to Igor. Igor, do you observe changes in the expectations of your stakeholders, with respect to sustainability, or is the new strategy just largely responding to the interest of investment?

Igor Shekhterman:

Okay, thank you for the question; we see a growing interest in certain ability from many different stakeholders, not just investors. For example, our customer want us to use more packaging from recyclable materials and go for more health food options. Our local communities want a responsible approach to waste and social support programmes. Regulators and our employees want us to provide safe and rewarding job opportunities. So, with our new sustainability strategy, we want not only to respond to our stakeholder's interest in sustainability but to exceed their expectations.

In our view, this is good for business and good for our investors. So we are glad that our investors are asking more questions about ESG. We have seen interest from investors in topics like our approach to plastic waste, our corporate governance practice and our ESG ratings. In return, we will continue to listen to feedback from investors and we will keep improving the depth and frequency of our non-financial disclosures. Many of the regulators' priorities are also aligned with sustainability, such as legislation on product quality and the environment. The regulators also expect us to show a responsible approach to our local community, especially in the areas next to our stores.

Ivan Kukhnin:

Thank you. I guess my next question is going to be about governance. Clearly environmental and social topics often get the most attention in discussions about sustainable development. As a result, we feel that governance or the "G" of the ESG, often gets less attention. What is X5 doing to strengthen its governance of sustainability issues?

Igor Shekhterman:

Firstly, it is important to say that X5 has, for a long time, followed leading corporate governance practice. And in general our strong approach to cooperate governance has been recognised by rating agencies. Talking about our sustainability strategy, our board members already have many years of experience in implementing these strict initiatives in the retail industry. We therefore already have a strong governance structure to help us achieve our goals. Looking to the future, we understand that the growth of sustainability means that the roles of the management and the board are changing. We therefore plan to review our current governance practice for ESG and to make sure we are up to date on international best practice.

Ivan Kukhnin:

Thank you Igor. I think I couldn't miss the question about COVID. Clearly it's a very important item on the business agenda, so with the COVID-19 pandemic, which has tested many companies' risk management systems, how would you assess X5's performance?

Igor Shekhterman:

The pandemic clearly presented significant questions and challenges for the whole world and for our company, but we are satisfied with how we responded and continue to respond to the crisis. In particular, we were quick to strengthen safety measures, because our number one priority is the wellbeing of employees and customers.

In terms of risk management, I am glad to say that our risk management department was closely monitoring the pandemic from its early stage, which helped us prepare different scenarios and take action by increasing stock of socially important goods. Also, thanks to our digital transformation project last year, we transferred around 90% of our office workers in Moscow to remote working within a week in March after the announcement of lockdown in Moscow region. We then quickly increased this figure to almost 100%. So overall I think it is fair to say that our performance has been impressive.

Andrey Vasin:

Thank you Igor. I think we have a few questions from the participants. The next one would be to Elena, I suppose. How do you plan to implement your renewed sustainability recommendations for suppliers? And what will you do if the supplier does not adopt X5's recommendations?

Elena Konnova:

Thank you for the question. You are right that our sustainability recommendations for our suppliers are not yet obligatory requirements. These recommendations cover topics like environmental and social certification and packaging. We understand that implementing new sustainability practices take time, and so as a first step, we have prepared these recommendations based on things like our own policies and industry best practices. We also did a survey of our three largest suppliers. As I said, our suppliers can therefore use our recommendations to understand our expectations for ESG performance.

In terms of next steps, we will monitor our suppliers' performance. Based on the result of this monitoring, we will decide how we can work with suppliers to improve ESG performance. And we are planning to make detailed recommendation for each food category. I can say that we will move gradually but persistently in this area.

Andrey Vasin:

Thanks Elena. So, the next question probably to Yana. Can you please provide some more information about X5's initiatives on health foods?

Yana Synesiou:

Absolutely. So, if we talk about healthy lifestyle and healthy foods, we actually see the healthy eating trend is becoming more and more popular in Russia, and especially in Moscow. And in general, the popularity of specialised retailers offering healthy food options is growing. At X5, we have targets to increase the share of fresh and healthy foods in our assortment, as Elena mentioned earlier. For now, we define first our understanding of what health and nutrition is. However it is only the first step and really is the driver to move towards a full picture of what healthy diet is and how a healthy platter might look like.

At the same time, as I mentioned earlier, both Pyaterochka and Perekrestok launched a number of projects, focused on developing special areas in our stores for healthy foods. The idea is to help customers find the healthy options more easily and inform them about the potential benefits.

Andrey Vasin:

Thanks Yana. The next question, I think Elena, maybe you'll take it. Your environmental targets were interesting, in particular a few companies in Russia are participating in renewable energy projects. How do you plan to achieve your goals in this area?

Elena Konnova:

For greenhouse gas emissions, our target is a 10% cut by 2023. We made this target based on analysis of opportunities for better energy efficiency. In terms of renewable energy, the industry overall is still immature, and there are very few examples of a successful switch to renewable energy. But we are currently piloting the switch of nine DCs in Pyaterochka to green energy. If they are successful, we will be moving another five by the end of this year, and we are also planning to pilot a transfer of another four in Perekrestok. We will then have more concrete details on our renewables initiatives in the second half of the next year. It is early days but we see great opportunities through energy efficiency and renewable energy. That's why we have set a more ambitious target, to reduce our emissions by 30% by 2030.

Andrey Vasin:

Thanks Elena. The next question is, what is staff turnover running at this year? Yana, maybe you'll take this one.

Yana Synesiou:

Absolutely. Staff turnover is actually an area where we're making a lot of progress. So, in 2019, staff turnover fell to around 49%, from 69% in 2018. And the unaudited figure for the first half of 2020 is 42%. Just to give you a comparison; the Russian average in the retail sector is about 50%, so we're better than the average already. We're also aiming, of course, for further improvement. For example, improving staff turnover is a part of the short-term incentive scheme for our management team. We have also developed a plan to improve HR management and recruitment, and other incentive schemes. So in brief, our actions here are targeted at the

different areas of our business. For example, to support the technological development of X5, in what is a very sought after industry, we have focused for several years now on recruiting and retaining talented IT professionals.

Andrey Vasin:

Thanks Yana, and maybe one more to you. Your target is for 50% of assortment to be fresh by 2023, what is it now? As the target sounds high, how realistic is it? Can customers have healthy options that are not fresh?

Yana Synesiou:

I think it's two questions here. Thank you Andrey. So, if we talk about the target for 2023, actually a lot of work has been done to really understand the baseline right now. Right now, our number is over 30%. So what we did in order to set our target is we analysed over 2000 private label SKUs. We interviewed over 200 private label suppliers. Those two inputs helped us understand where we are now, and really set the target for the future. Obviously we are doing it together with our suppliers, so it's a joint process.

In terms of your second question of healthy options not just being fresh, you are absolutely right. So, fruit and vegetables are a big part of it, and are important, but we're aiming at a healthy food platter, so really a balanced ratio of the food that people are eating. And here, internally, we have developed a number of criteria, I would say, that help us identify what is potentially balanced for a healthy platter. However, as I mentioned, it's the first step. So the criteria are helping us sort of drive the agenda forward, but as we are maturing and developing together, we're doing it with a lot of stakeholders within the country, we're involving a lot of experts, nutritionists, dieticians, we will have a better understanding of balanced nutrition and a balanced platter.

Andrey Vasin:

Yana, thank you very much. I've got another question for you Elena. We heard Igor's perspective on COVID-19, and its impact on the business and how your risk management system coped with it. Can you please comment, has COVID impacted the development of your sustainability strategy?

Elena Konnova:

In general, no. Firstly, our supervisory board improved our sustainability strategy in December last year, so before the start of the pandemic. Also, employees and communities are two of our four ESG priority areas that we chose last year. So, our response to COVID, like safety equipment for our staff and support to local communities, all fit with our long-term sustainability strategy. In other words, we see our sustainability strategy as part of our overall business strategy, despite challenges from COVID.

Andrey Vasin:

Thanks Elena. I think we have a few more questions, probably Yana will take it. What steps has the company taken to identify and manage climate and other environmental risks in the agricultural supply chain? Have you identified any suppliers that are highly exposed to these risks?

Yana Synesiou:

Thank you Andrey. So, sustainable supply chain is a really big focus for us, and we have done a number of things. First of all, together with our suppliers, we identify what sustainable packaging is. We created our recommendations, that Elena has talked about, and helped build the baseline of where we are right now. This is a really big topic for us, the sustainable packaging, that will definitely have a big impact on our supply chain.

The other area is the certification; we have done a big analysis on all the potential certificates that are out there. We identified the certificates that are relevant for our assortment, and we have developed separate recommendations to our suppliers, showing what certifications we would prefer for them to have. We are in constant dialogue right now with our suppliers to better understand what can be done in the near future. In terms of longer-term plans, obviously, the climate risks and the ecological risks are a big, big topic, and it really is our next step that we will be focusing on massively in 2021.

Andrey Vasin:

Thank you Yana. I've got a question to Natalia on the ESG ratings, because clearly they're an important indication of a company's performance in the ESG domain. Can you share your plans on working with ESG agencies? What kind of ESG ratings do you target currently?

Natalia Zagvozdina:

Yes, thank you for this question. Indeed, there are several agencies that were looked at a couple of years ago and we resolved to start working with additional ones. We presented to you today the four main ESG ratings that we have received and on each of them we have seen an improvement. We work with MSCI ESG, Sustainalytics and Bloomberg ESG. We have had a significantly larger effort on the IR side, on top of the efforts of Elena and Yana's teams, to actually look deeper into what we already do in ESG on the IR side. We have approached it from the angle of better understanding the methodology of each of the rating agencies, and you know that some of them change the methodology.

We have increased disclosure, we have approached internally the HR, for example, starting to disclose the personnel turnover, which we didn't do before. And there will be higher granularity, we hope, with more information from various parts of the ESG agenda. We've also, on the IR website, introduced the ESG data book, as you know. It will be updated semi-annually. Some of the data for a company of our size is difficult to collect more frequently than once a year. We will

try to do it as often as we can as we go forward, as X5 continues to build internal systems to monitor and control the progress.

I also want to mention that, Elena, correct me if I'm wrong, at least twice a year, the supervisory board will be looking at ESG issues, which was not a part of their agenda before. And I also vividly remember a discussion internally, a year ago, when the management of X5 explicitly said they understand the ratings that investors are working with, but X5 will be adapting the new ESG strategy because the company believes it is right to do so. It will enhance the sustainability of the business. And as a derivative of that, we should see higher ESG ratings. And so far, I'm glad to say we're going in this direction.

Andrey Vasin:

Thanks, Natalia.

Yana Synesiou:

Can I actually add on to Natalia's points? So, transparency, which Natalia talked about, is a crucial element of our ESG development. Within the works, of course there is the supervisory board that is monitoring our progress twice a year. But on top of that, our management team internally is checking the progress on a quarterly basis. More than that, if we talk about our data book, our top management has constant access to all the numbers in that data book, helping them understand how the numbers are changing on a continuous basis. We are also doing a lot of training for all of our management team, as well as other employees, to make sure that everyone, A, understands what sustainable development is, and, B, what our strategy is and what we are doing there. Thank you.

Andrey Vasin:

Thanks Yana, I think maybe you'll take another question. Can you provide any additional information with regards to targets for increasing the share of healthy products in the assortment?

Yana Synesiou:

Shall I take it, Andrey? Thank you. So, in terms of the healthy products, it's actually an interesting area for us. We have done a lot of work in understanding, at least initially, what healthy products are. We have developed internally nine main criteria that help us distinguish healthy products. The criteria are gluten-free, organic, vegan, natural or wholesome ingredients, fresh from the farm, high protein, low calorie, no added sugar and any additional criteria that we will be incorporating. This has become a basis for our conversation with our suppliers. And whenever the supplier is offering us a healthy product, we request a number of certificates, or proof, that the product is really organic, or vegan, or any other criteria. But this is just the beginning, so we understand our baseline, we run through our assortment to understand where we are, and we know our current levels. And now, we really want to expand our idea from just

healthy products to really a balanced platter, which has fruits and vegetables and all the other type of products that are necessary for healthy living, and this is the process we are working on right now.

Andrey Vasin:

Thanks Yana. Elena, the next question I think probably you'll take it. What is the sensitivity of the company to adjustment in the minimum wage? Does the company pay a premium for this? If so, roughly what size, and is this a matter of policies?

Elena Konnova:

Yes, we regularly monitor the level of competitive wages in all the regions of our presence, and align them to the market level. In all regions, average wages for relevant position are higher than the federal minimum wage, and the minimum wage at X5 exceeds the federal minimum wage by 40-60%, depending on the region. Russian regulation doesn't require that an employee's monthly salary exceeds the minimum wage. Nonetheless, salaries in X5 are always exceeding the minimum wage.

Andrey Vasin:

Thank you Elena. I've got another question here. What percentage of suppliers are audited, and on what basis are those audited suppliers selected? How often would a supplier expect to be audited and – well actually it's three questions, but do audits include environmental and labour considerations of suppliers?

Elena Konnova:

Thank you. So, all of our new suppliers must undergo a mandatory audit to confirm that their production facilities are compliant with the regulatory requirements for quality and food safety, as well as cleanliness, hygiene guidelines and production and storage areas, upheld by X5 retail group. Depending on the results of an audit, a supplier is audited every one, two or three years. Audits do not include environmental and labour considerations right now. But suppliers are requested to provide certificates for environmental management systems and social responsibility management systems. Thank you.

Andrey Vasin:

Elena, maybe you'll take the next question. What is the supplier split between domestic and international? What is the average length of supplier relationship?

Elena Konnova:

Direct inputs accounts for only 4.2% of sales. Majority of international producers have local production in Russia. Unfortunately, we don't track the length of the supplier's relationship. The contracts with suppliers have no terms limits, and as long as a product is in demand, we continue cooperation with a certain supplier.

And Andrey, if it's possible, I would like to add one comment to one of the previous questions, concerning our climate strategy. Developing our policy on climate strategy, will we assess ourselves via TCFD methodology, to assess financial performance in case of climate risk? We are planning to do it next year.

Andrey Vasin:

Thanks Elena. One more question. Equal opportunities for professional growth are perceived as the foundation for business model resilience. How do you ensure that your employees are treated equally? Yana, maybe you'll take this?

Yana Synesiou:

Sure, equality is actually a big matter for us. So we forced equality from various training and development programmes which 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 to our employees development on the other. We also regularly monitor the composition of our management bodies, that's CEO minus 1, CEO minus 2, CEO minus 3, and CEO minus 4 levels, to make sure we have a fair representation of women and calculate our gender pay gap for managerial positions. They are all disclosed in our ESG data book on our official webpage. I actually want to mention that our take-up difference is on par, if not better, than a lot of international benchmarks. In the first half of 2020, over 40% of managerial positions were occupied by women, and we believe that this is a really good number. We pay extra attention to the review of compensation schemes, to ensure that sites are tied to objective factors only. For example, professional performance and ethical conduct. And we are very pleased with our progress, but of course we acknowledge that future efforts are required.

Andrey Vasin:

Thanks colleagues. It seems that there are not any further questions from the webcast. Operator, are there any other questions from our audio lines?

Natalia Zagvozdina:

If there are no further questions from the lines, we would like to thank all participants on X5 side for doing this call, and thank you, ladies and gentlemen, for your interest in our ESG agenda. Please follow up with any questions that were left unanswered. And we would like to thank Ivan Kukhnin, who spent this hour with X5 and for his support through this very ambitious journey Elena and Yana's team have made so far. Thank you.