Overview

About this report

In this report, we aim to inform our readers about material issues that have the potential to impact our business and to explain how this influences our strategy, our operations, our financial performance, the long-term sustainability of our business and the value we seek to create for our stakeholders.

This report aims to answer key questions such as:

- What does X5 Retail Group do, and what are the circumstances under which it operates?
- How does X5 Retail Group’s governance structure support its ability to create value for stakeholders in the short, medium and long term?
- What is X5 Retail Group’s business model, why did we choose this model and what makes it unique?
- What are the specific risks and opportunities that affect the Company’s ability to create value for stakeholders in the short, medium and long term?
- What are the Company’s key strategic goals, and how does it intend to achieve them?
- To what extent did the Company achieve its strategic objectives for the reporting period, and what was the effect on the value of the Company for stakeholders?
- What are the key challenges and uncertainties that the organisation is likely to encounter in pursuing its strategy, and what are the potential implications for the business model and future performance?
- How does the Company determine which matters are worth including in the annual report, and how are such matters quantified or evaluated?

Corporate responsibility

In order to secure the long-term sustainability of our business model and our operations, we are constantly reviewing and monitoring our interaction with stakeholders and the material issues that could affect our business.

We discuss our investments in human capital, health and safety, reducing our impact on the environment, and the local communities where we operate. We provide details on how our governance systems have been adapted to the changing business environment, and how we maintain relationships with our key stakeholders.

For more details, please refer to pages 154-155

Corporate governance and risk management

X5 continues to implement robust corporate governance practices that meet or exceed the requirements of the UK, European and Russian regulations that govern our activities. As a large and rapidly expanding business that is at the forefront of innovation in its sector, the sustainability of our success is due, to a significant degree, to the proper and smooth functioning of our governance and risk management systems.

For more details, please refer to pages 156-191

Determining our material issues

We have determined the material issues to include in this report based on management’s understanding of our business model, risks and opportunities, and stakeholder interests. Management uses a variety of tools to remain informed about the material issues facing the Company, including regular internal analysis and reporting mechanisms, market research, external polling and research products, as well as feedback received directly from key stakeholders. While no formalised polling of stakeholders has been conducted for the purpose of determining material issues, it is the belief of management that this report addresses how we interact with and create value for stakeholders in a comprehensive manner.

Mission, vision and values

X5 Retail Group is Russia’s leading food retailer. We create, develop and manage a portfolio of retail formats with distinct value propositions and brands that together target all categories of Russian customers.

We are a large business with a sustainable track record of more than 20 years. The Company has evolved from its roots as an entrepreneurial initiative to build a leading Russian retailer that is committed to adopting international best practices. Today, X5 is a business that draws on its entrepreneurial nature to drive growth in the food retail sector. It is a client-oriented business that strives to create value for its customers, shareholders, employees and other stakeholders.

Our goal is to be #1 in the hearts of Russian consumers

Values

In order to achieve our mission and our strategic goals and to make our vision a reality, we adhere to a set of values that we believe are best suited to our business:

- Customer orientation: in addition to excellence in every store, we leverage technology and innovations to better adapt to changing demand and to make it possible to bring each of our customers a more personalised shopping experience in an efficient manner.
- Innovation: technology is changing our industry with ever-greater speed, and we intend to be at the forefront of this technological transformation, developing and implementing new ways to increase efficiency and better meet our customers’ shopping needs.
- Strong leadership: our management team consists of experienced and highly qualified professionals, and we have implemented long- and short-term incentive programmes to align management interests with our goals of sustainable, long-term, profitable growth for the business.

Effective operating model: X5 aims to decentralise its operations by giving each of its retail formats significant responsibility for the success of their segment of the business.

Intelligent organic growth: we expanded our selling space by more than 1 million sq m in 2017, and 87% of our growth was organic. We are constantly optimising store opening procedures.

Efficiency: we are always seeking ways to improve the efficiency of our operations, optimising business processes to enable us to do our job better and more efficiently.

Mission

X5 believes that it should offer all of its customers in all regions, regardless of income level, accessible food products and modern retail services. X5 is a company capable of delivering this by leveraging its scale and the value proposition of its portfolio of retail brands.

We aim to fulfil our mission by:

- Satisfying the food needs and desires of the Russian consumer
- Acting as a reliable partner for national and regional food producers
- Investing to expand Russia’s modern food retail infrastructure

Vision

On a sustainable basis, X5 aims to become the recognised leader of the Russian food market and the #1 food store in the hearts of Russian consumers.