

# Transport

Our transport fleet consisted of 3,144 trucks as of 31 December 2017, and we were capable of handling 74% of our transportation needs during the year. Our own fleet constitutes a key element of our retail operations infrastructure, which has to support our retail formats as they rapidly expand across Russia. At the same time, we are developing new modes of transportation to help us access new areas and transport goods faster and efficiently across Russia's long distances.

## Transport strategy

In June 2017, we approved our Logistics and Transportation Strategy to 2025, which will govern how we develop our transport operations in the years ahead. The new strategy aims to provide a reliable, timely and efficient supply of goods to our stores, including to locations with poor accessibility by road and/or requiring travel across significant expanses of Russia's territory.

The key elements of our transport strategy are:

- **The best offering in a competitive market:** we aim to ensure we can achieve the best transport service rates across our operations by developing our own fleet and diversifying our third-party transport service providers across a variety of channels.
- **Establish 4PL operations in remote regions:** in order to support ongoing regional expansion, including in remote regions of Russia, we aim to establish our own 4PL integration platform for efficient, multimodal transport of goods to our stores.
- **Technology-driven:** we are constantly testing and introducing new technologies to improve the efficiency of our operations. This includes everything from cutting-edge technologies like driverless trucks to using platforms that source trucks, drivers and trailers separately in order to optimise lead time and costs.
- **Focus on service quality:** our goal is to achieve a 98% success rate in meeting delivery windows and temperature requirements for deliveries, and we have established business processes that enable us to respond quickly to the changing requirements of X5's retail formats.

The overarching goal of our transport strategy is to effectively and efficiently support X5 Retail Group's development plans as it expands and refines its operations in existing and new regions of the Russian Federation.

## How we manage transport

The Director for Transport, located in the Corporate Centre, is responsible for implementing and monitoring performance targets and establishing strategic goals with regard to X5's transport operations.

Starting in 2016, the Corporate Centre's Transport Department took over management of all of Pyaterochka's third-party transportation operations in the Central division. Starting from 2018, as Pyaterochka creates "macroregions" for management of its stores, the Transport Department will establish identical macroregions for management of transport operations.

In order to effectively monitor our growing fleet, we use centralised transport management systems to maintain a real-time view of the location, condition and storage temperatures of the entire fleet. Thanks to GPS/GLONASS systems, X5 is able to monitor the movement of shipments from DCs, helping stores to plan for arrivals and be alerted to delays.



## What we did in 2017

- Substantially increased own truck fleet:** purchased 1,231 trucks (including 100 trucks with dual-fuel engines), increasing the size of X5's fleet by 36% year-on-year to 3,144 trucks as of 31 December 2017. As a result, the average age of our transport fleet decreased from three years in 2016 to two years in 2017.
- Developed multimodal delivery:** began using rail transport to supply stores in areas like Komi, where there are no normal roads for motor transport. We also launched delivery of fruit and vegetables from the St Petersburg port to our DC in Novosibirsk. This has enhanced our ability to ensure a stable supply of quality goods to remote and distant regions as we expand throughout Russia.
- Continued development of GoCargo:** In addition to the Central division we launched our own decentralised cargo service in other regions across Russia, with the share of GoCargo deliveries reaching up to 16.0%.
- Cross-docking:** in 2017, we opened three new cross-docking sites, primarily to optimise logistics and increase the efficiency of deliveries to remote regions, including as a substitute for DCs.
- Less-than-truckload shipping:** in Moscow and St Petersburg, we opened two sites for the consolidation of small lots of goods for delivery to our DCs in these regions. This is especially important as a platform for fresh and frozen goods, and it is a unique service in Russia. This technology helps our suppliers reduce the cost of delivering products to DCs.
- Pilot joint deliveries:** in order to increase the efficiency of using our own transport for some suppliers to other customers.