

Environmental review

Key objective

As our business grows and develops, so does our environmental impact. Taking a responsible approach to our impact on the environment is key for X5's successful and sustainable long-term development.

Policy highlights

- We strive to fully comply with Russian legislative requirements and the highest international environmental protection standards wherever possible. We believe that environmental care is not just a part of a large company's social responsibility, it also provides ample opportunities to improve business efficiency and reduce costs, and in some cases, even to generate additional income
- We regularly monitor our environmental performance at the senior management and Board level
- We endeavour to minimise any negative impact on the environment arising from our waste generation and emissions:
 - Each of our formats is responsible for implementation of its environmental policy and compliance with Russian Federation regulatory norms regarding waste disposal and emissions
 - At the Corporate Centre level, we set Group-wide strategic priorities that impact our environmental footprint
 - We implement programmes aimed at minimising emissions and waste from the Corporate Centre
 - We aim to reuse and recycle all materials
 - We endeavour to minimise the risks of violation of sanitary norms and rules during the collection, storage and disposal of waste
- We aim to minimise our energy consumption by installing efficient technologies at our stores, DCs and offices
- We preserve the environment and conserve resources
- We encourage dialogue and stakeholder participation in our approach to managing our impact on the environment

System highlights

- The Company's management team is responsible for implementing the policy: it sets goals and objectives, engages in planning and funding relevant initiatives.
- Each of our retail formats, as well as our logistics and transport operations, is independently responsible for adhering to Russian legislation and X5 Retail Group environmental policies.
- To ensure the participation of every manager and employee in our environmental actions, the Company has developed special training and courses.
- Our DCs and logistics facilities follow pest control and de-infestation procedures.
- Waste generated by our stores is transferred to third parties either for burial at landfill sites or for further recycling. We have established a list of recyclable waste to be disposed of by third parties, significantly reducing the quantities to be discarded and, as a result, the negative environmental impact from landfills.
- In 2017, Pyaterochka launched a project to reduce the cost of garbage collection for every site.
The project's main goals are:
 - Development and implementation of waste generation standards, monitoring of waste removal in accordance with standards
 - Making changes to normative legal acts (Federal Law No. 89 and Federal Law No. 29) to simplify the process of dealing with food waste
 - Repurposing food waste for farming purposes
 - Repurposing waste through recycling or for generation of energy or other materials
 - The Company is expecting to save RUB 43 million in 2018 as a result of these initiatives.
- In 2017, we launched our Energy Consumption Accounting System project. The goal of the project is to buy electricity at favourable rates for Pyaterochka stores. For this, Pyaterochka is taking the following steps:
 - Equipping the entire network with an automatic data collection system to measure electricity consumption
 - Building a global processing system that will analyse the data flow and calculate optimal tariffs and then transfer the data to marketing companies
- Internal audits allow us to evaluate the efficiency of our actions and to set new environmental goals for the Company.

X5 is conscious of the environmental impact of its operations, and goals and targets are in place within the retail formats with respect to food and biological waste, cleaning and disinfection, and waste-water management. Distinct KPIs relating to CO₂ emissions, waste disposal, recycling or energy efficiency are currently being considered at the Group level and will be reflected in next year's Annual Report.

Format	Goals and targets
Pyaterochka	Management of accounts receivable for municipal services, management of retail format property
	Management of budget for removal of food and biological waste
Perekrestok	Management of budget for pest control, cleaning and disinfection agents
Karusel	Reducing fines for discharges of waste water from Karusel hypermarkets

Our key activities in 2017

	Recycling	Reuse	Energy efficiency
Pyaterochka	<ul style="list-style-type: none"> In 2017, the Company started a new project called "Portal for recycling containers for suppliers". The portal allows our suppliers to pick up recycled waste depending on the capacity of our DCs. In 2017, we completed the process of collecting and consolidating secondary raw materials from our stores. The purpose of this process change is to get a better price by selling bigger lots. In 2017, we sold 200,000 tonnes of wastepaper and exceeded the plan of sales of secondary raw materials by 7%. 	<ul style="list-style-type: none"> In 2017, a project was launched to calculate trolley needs at every store. The goal of the project was to reduce the purchase cost of trolleys. 	<ul style="list-style-type: none"> In 2017, the system for monitoring refrigeration equipment at every site was improved. Remote monitoring enabled control and maintenance of refrigeration equipment and reduced the consumption of energy by 0.3%. In 2018, the main development will be remote control of refrigeration temperatures. We provided our stores with refrigerators that make it possible to maintain the correct temperature in the store and to save on energy consumption. This project will enable savings of RUB 600 million every year.
Perekrestok	<ul style="list-style-type: none"> Perekrestok recycles different types of packaging: packing carton and polyethylene, plastic boxes, polystyrene, trolleys, wooden containers. With the help of the new NQ accounting and recycling control system, the sales of raw materials increased by 61%. We provided every store with refrigerators for the temporary collection of food and biological waste. This made it possible to follow the proper procedures for collection in accordance with veterinary rules. 	<ul style="list-style-type: none"> Perekrestok sends back to DCs all reusable containers, pallets and plastic boxes. 	<ul style="list-style-type: none"> Every Perekrestok store uses LED lighting.
Karusel	<ul style="list-style-type: none"> New entities are equipped with bio-compactors for processing and pressing organic waste. Karusel recycles different types of packaging: carton, plastic boxes, used vegetable oil, metal, pallet scraps. 		<ul style="list-style-type: none"> 7 Karusel sites are fully on LED lighting. LED lights replaced neon signs at 16 sites.

Income from the sale of recyclable waste, RUB mln

Format	2017	2016	Change, %
Pyaterochka	1,386	913	52
Perekrestok	172	107	61
Karusel	139	126	10
Total	1,697	1,146	48

Each of our formats is responsible for its environmental performance, and implements a variety of programmes aimed at reducing waste and increasing efficiency.

Our environmental initiatives

Logistics

We manage environmental risks separately for our distribution centres and transport divisions. Our distribution centres transfer plastic shrink-wrap, cardboard and packing materials, as well as domestic solid waste, for recycling. The transportation division disposes of car tyres and tubes, batteries, ferrous and non-ferrous metals, car oil and other materials as required by Russian legislation.

Distribution centres

Pyaterochka is implementing eco-development principles for its logistics network. The main goals of these principles are to reduce the consumption of energy and materials, while also increasing the quality of buildings and reducing operating costs. As a result of this initiative, we expect to reduce the impact of DC construction on the environment.

Transport

Our most significant environmental impact comes from our transport unit, where we use various approaches to minimise the damage caused by transport from our distribution centres to stores. Our fleet covered 74% of our transport needs in 2017, and it is newer than the fleets of most of our external contractors. 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 use 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. By the end of 2017, the average age of our fleet was two years, compared to an average age of three years at the end of 2016.

A full 100% of our transportation fleet meets Euro 3, Euro 4 or Euro 5 standards. Since 2014, we have been purchasing only Euro 4 or higher-class vehicles, and we have been using only high-quality fuel from leading producers.

Community investment review

Community strategy

- As one of Russia's leading food retailers, X5 recognises that its activities have a social impact, and the Company is proud to make a meaningful contribution to society. We believe that genuine engagement with local communities in the areas where we operate, as well as effective dialogue with public authorities of all levels and other stakeholders, represents the best way to maintain our social licence to operate on a sustainable basis.

Policy highlights

- X5 complies with relevant local and national regulations, frameworks, guidelines, globally applicable standards and best practices at all times.
- The Company's senior management team and Board of Directors monitor and regularly review X5's community investment activity and its performance against set targets.
- X5 implements its community investment activities in such a way as to facilitate the implementation of national development programmes, contribute to raising living standards and to provide support to vulnerable groups in society.
- X5's community investment activities are designed to be focussed and targeted in three key areas: food aid, support for children's causes and helping those with disabilities.
- We do not provide financial or other forms of support to non-charitable organisations or activities, nor do we provide financial assistance on an individual basis.
- X5 does not seek commercial or other benefits from its community investment activities, nor does it undertake such activities as a way of exerting influence over public authorities, political figures, or private companies.



System highlights

- Oversight of X5's community investment activities lies with the Company's Corporate Communications Department.
- Responsibility for day-to-day implementation of our community investment activities lies with different business units of X5, depending on the specific tasks and responsibilities required.
- The community investment activities of X5's individual retail formats are determined jointly between the formats themselves and the Corporate Centre, which provides support and advice on best practices and ensures that all activities are coordinated to create value for all stakeholders.
- KPIs are determined during the year in conjunction with experienced external consultants as part of the development of the Company's overall sustainable development programme.
- We regularly monitor our community relationships and conduct periodic audits and assessments to ensure that our aims are being achieved while meeting the needs of local communities.
- X5 is committed to regular dialogue with local communities and other stakeholders in our regions of presence, as well as with authorities at all levels to ensure our community investment activities dovetail with local, regional and national priorities.





Activity highlights

Food aid

X5 runs a number of programmes to provide food aid to those in need.

Since 2015, the Company has worked alongside the Rus Food foundation to promote the Basket of Kindness initiative, which encourages customers to buy food to be donated to those in need. In 2017, this initiative was rolled out across more than 800 stores and collected more than 77 tonnes of produce that was provided to more than 6,000 families in need.

In November 2017, the Company launched the Basket of Kindness website, корзинадоброты.рф, to allow customers to donate online and to get more people involved in volunteering activities, as well as providing news about food-banking. In the site's first two months, more than 30,000 users bought and donated produce online worth a total value of more than RUB 300,000.

In December 2017, X5 took part in a "food marathon" organised in conjunction with the Rus Food Foundation, the Billa and Dixy chains and supported by the Moscow city government. Some 194 Perekrestok stores took part, and the marathon collected more than 30 tonnes of food, which was distributed to over 20,000 elderly people across Russia for New Year's Eve.

Support for children's causes

X5 works closely with the Life Line Foundation on a number of initiatives to provide support for children in need across Russia. These initiatives include:

- In-store donation boxes to collect funds to help children with severe health issues. In 2017, more than RUB 14 million was donated through these boxes.

- Customers of Perekrestok, Pyaterochka and Karusel can buy a "Kindness Candy" at the check-out to donate RUB 5 to Life Line. This initiative collected RUB 7.8 million for children with severe health issues in 2017.
- Members of the Perekrestok Club loyalty programme can help seriously ill children by donating accumulated bonus points to charitable causes. In 2017, RUB 1.1 million was transferred to the Life Line Foundation in this way, helping to pay for operations for five children.
- Since 2016, Perekrestok supermarkets have donated RUB 1 from every sale of Bonte-brand wafer biscuits to the Life Line Foundation. In 2017, this raised more than RUB 800,000.
- Company employees regularly take part in charity fairs that X5 runs with its partners. In 2017, these fairs raised around RUB 300,000 for the Life Line Foundation.

X5 also works with the Connection foundation, which supports people with hearing and visual impairments. In April 2017, the Company launched a new initiative called "Buy a bag, help a child", which donates a portion of all sales of plastic bags sold at Pyaterochka, Perekrestok and Karusel towards medical treatment and support for children with hearing and visual impairments. In 2017, the initiative raised more than RUB 28 million.



Since January 2017, X5 has been supplying food products for the “Quiet House”, Russia’s first sheltered accommodation for people with hearing and visual impairments, from a Pyaterochka in the town of Troitsk.

Support for vulnerable social groups

X5 supports vulnerable social groups by offering basic food products at affordable prices. For a number of years, we have been offering discounts for elderly customers, and we plan to continue this practice in the future. Pensioners get a 10% discount at Pyaterochka stores on Mondays, and 5% on all other days – the scheme was extended to weekends in 2017. Perekrestok supermarkets offer a 10% discount from 9 a.m. to 1 p.m. on weekdays, while Karusel hypermarkets offer a 5% discount from opening until 1 p.m.

In 2017, more than 208,000 people made use of the electronic social cards programme launched by the Moscow city government to make purchases at Pyaterochka, Perekrestok and Karusel stores, up from 130,000 in 2016.



Like X5

Volunteering

X5 encourages its employees to get involved in its community-focussed initiatives.

In 2017, almost 250 of the Company’s employees took part in the Run for Life charity marathon organised by the Life Line Foundation, raising RUB 2.5 million for charitable causes. Last year also saw X5 employees participate in a new Life Line Foundation initiative, a charitable Nordic walk. Almost 100 employees took part, raising more than RUB 600,000.

In November 2017, the Company launched an online platform to encourage volunteering. The platform allows employees to share ideas and their experiences of volunteering, find out about their colleagues’ voluntary activities, organise volunteering activities and provide updates on social hot topics. Almost a thousand unique users have used the platform since it launched.