

# Transport

Efficient and reliable transport is essential to our successful operations, with stores in five time zones across Russia. We are investing in transport infrastructure in order to ensure that we have the capacity to deliver high-quality goods on time. In doing so, we are leveraging technology and innovations to maximise the capacity and usage of our trucks.

X5's transport fleet consisted of 3,830 trucks as of 31 December 2018, and we were capable of handling 85% 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 expand across Russia's vast territory. At the same time, we are developing new modes of transportation to help us access new areas and transport goods faster and more efficiently across Russia's long distances.

## Progress against our strategy

In 2017, we approved a Logistics and Transportation Strategy that aims to ensure that these operations contribute to the sustainable growth of X5 Retail Group's business. The core elements of this strategy are laid out below:

- **The best offering in a competitive market:** we have invested in equipment, technology and people to help ensure that our own transportation services are at the forefront of what the market has to offer.
- **Establish 4PL operations in remote regions:** we are successfully developing our own integrated multimodal logistics in order to support ongoing regional expansion, including in remote regions of Russia.
- **Technology-driven:** we are using technology for a variety of applications, from improved route planning to delivery services like GoCargo and the ability to source trucks, drivers and trailers separately in order to increase efficiency and reduce idle or excess capacity.
- **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.

## How we manage transport

The Director for Transport operates from X5's Corporate Centre and is responsible for implementing and monitoring performance targets, as well as implementing the strategic goals that have been set for X5's transport operations.

In 2018, the Transport Department established six macro-regions aligned with Pyaterochka's updated organisational structure in order to synchronise operations with the format's retail operations.

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

## What we did in 2018

- **Increased fleet size and capacity** with 910 new trucks, bringing the total fleet size to 3,830 as of 31 December 2018 and the average age of the fleet to 2 years. Reviewed new types of trucks with petrol and diesel motors, as well as new types of trailers (new couplers, doppelstock semi-trailers, extended semi-trailers with greater cargo capacity, city trailers); approved the purchase of 300 couplers and 25 semi-trailers with greater cargo capacity for 2019
- **Developed multimodal delivery** to remote regions in Russia, including coverage of the entire Komi Republic, including Vorkuta, Usinsk, Pechora and Ukhta. Launched multimodal transportation between St Petersburg and Novosibirsk (fruit and vegetables) and Moscow and Novosibirsk (dry food products)



- **Improved efficiency and flexibility of operations** with interbranch transportation between DCs and new types of trucks, which helped balance the load in low/high seasons; launched new cross-docking sites in Pyatigorsk, Vorkuta, Usinsk, Yugorsk, Krasnoyarsk and Izhevsk (for the Perekrestok format).
- **Reduced delivery time for fruit and vegetables** from ports to DCs by four days, helping reduce shrinkage by 20%.
- **Continued development of GoCargo.** In Q4 2018, X5 began to develop delivery services for external customers (our suppliers + less-than-load delivery). X5 entered St Petersburg, Yekaterinburg, Chelyabinsk, Nizhny Novgorod, Samara, Voronezh, Rostov and Krasnodar with this service. This LTL service was launched in 2016 to give producers the opportunity to transport small lots of goods using the X5 fleet to any of our DCs. In two years, more than 500 thousand pallets of various goods were handled. At present, X5 delivers about 7 thousand tonnes of LTL cargo every month
- **Expand cross-docking and cross-docking light** sites for both Pyaterochka and Perekrestok
- **Boost self-delivery:** increase the volume of tender fruit and vegetables (weekly and daily), expand dry, fresh and drinks categories and add alcohol
- **Further expand multimodal transportation:** St Petersburg to Yekaterinburg/Chelyabinsk routes are to be launched in February 2019; add Inta and Novy Urengoy domestic destinations, as well as international delivery of goods from Uzbekistan and China
- **Launch GoCargo – MVP,** further develop delivery services for external customers, increasing the share of external deliveries; launch three LTL sites in Kazan, Samara and Voronezh
- **Continue to pilot international shipments** with its own transport, including shipments from Poland and Serbia, and shipments from China and Kazakhstan may possibly be about to begin
- **Digitalisation of business processes** with the transport micro-service platform
- **Personnel motivation:** develop an intangible motivational scheme, as well as launch a professional training initiative for line managers

## Plans for 2019

- **Continue development of fleet:** transition to more efficient and environmentally friendly gas and diesel equipment across almost our entire transport fleet
- **Develop new piggyback transportation.** Pilot dispatch of a semi-trailer with a basket without a truck is expected in Q2 2019