

# Compliance and ethics

When conducting business, X5 Retail Group aims to ensure that its actions and the actions of its employees comply with the Company’s values, ethical standards and legal requirements.

## Key documents



## Stakeholders



## Policy highlights

### Code of Business Conduct and Ethics

We introduced our **Code of Business Conduct and Ethics in 2015**. This is an internal regulatory document that outlines a set of basic principles that guide X5’s business practices. This document serves as a guideline for Company employees, helping them make proper, informed decisions in various ethical situations related to the performance of official duties, and as the basis for a number of the Company’s other internal regulatory documents. The Code of Business Conduct and Ethics covers areas such as responsibility to the state and society, protection of the Company’s interests, upholding personnel and business ethics, and it also explains the process for reporting violations of the Code. The provisions of the Code of Business Conduct and Ethics are mandatory for senior management and all other Company employees.

### Code of Interaction with Business Partners

Since 2015, the **Company has had a Code of Interaction with Business Partners**, which sets the standards for doing business that the Company expects both its employees and partners to comply with. As an industry leader, X5 is aware of its responsibility to the state, society, shareholders and partners, and aims to fully comply with legal and ethical standards, as well as best corporate practices, in order to serve as an example for other market participants. The Company expects its employees and partners to adhere to the provisions of the Code in their work and also to report violations of the Code. The Company set up a Conciliation Commission in 2015 for the purposes of handling complaints about violations of the provisions of the Code of Interaction with Business Partners.

## Policy on Countering Misconduct, Including Fraud and Corruption

In 2017, X5 adopted a **Policy on Countering Misconduct, Including Fraud and Corruption** (the Anti-Corruption Policy). X5's Anti-Corruption Policy is the Company's main internal document that establishes the approach and principles used by the Company in fighting corruption (bribery and corrupt business practices) involving Company employees and partners. The anti-corruption system includes a set of tools aimed at preventing, uncovering, investigating and responding to possible cases of misconduct. The Anti-Corruption Policy also establishes roles and responsibilities for departments and management bodies. Our principle of zero tolerance for corruption and fraud is enshrined in the Policy.

The provisions of the Anti-Corruption Policy are obligatory for the management team and for all other Company employees.

One of the key objectives of X5's Anti-Corruption Policy is to ensure that our activities comply with legal requirements in the area of countering bribery and corrupt business practices.

The system's main objectives are:

- establishing effective procedures and initiatives to prevent corruption
- forging a corporate culture of honesty and zero tolerance for corrupt behaviour
- minimising the risk of the Company's involvement in corrupt activities

Compliance with these rules is mandatory for the Company's management, retail formats and other business units, as well as for all Company employees. All Company contracts with suppliers are also prepared in accordance with the Policy.

## Declaration on Human Rights

At the end of 2017, the Company adopted a **Declaration on Human Rights**, which specifies principles and rules on compliance with, and promotion of, international standards for the advancement of human rights at all stages of the Company's activities. These principles are based on respect for the inherent dignity of every human being, as well as the freedom and equality of all people.

<sup>1</sup> In accordance with ISO 19600:2014 (Compliance Management Systems).

The Declaration deals with the following issues:

- Respect for cultural values
- Respect for the right to freedom of assembly and association
- Occupational safety
- Working conditions
- Prohibition of discrimination and forced labour
- Prohibition of harassment

The goals and objectives of the Declaration are implemented through other Company bylaws, including the Code of Business Conduct and Ethics.

## Compliance Policy

In order to ensure compliance with the requirements of regulators, stakeholders, established business practices, voluntarily adopted standards and rules of business conduct and ethics, X5 also adopted a **Compliance Policy** in 2017.<sup>1</sup> Compliance risks are assessed and reassessed on an ongoing basis.

## Policy on Processing Personal Data

In accordance with legislative requirements, X5 has a **Policy on Processing Personal Data** in accordance with applicable legislation of the Russian Federation on personal data and other regulatory documents. This policy applies to all processes involving the collection, storage, retrieval and transfer of personal data within the Company.

## Code of Conduct on Insider Information and Operations with Securities

In order to comply with the new EU regulation on market abuse, we updated our **Code of Conduct on Insider Information and Operations with Securities** in 2016 in an effort to prevent misconduct.

All key documents reflect X5's values, and are reviewed and updated on a periodic basis as necessary and in response to changes in legislation.

## Key processes for ensuring ethical compliance

### Ethics Committee

The Company has had an Ethics Committee since 2016.

The Ethics Committee:

- Reviews disputes associated with violations of the Code of Business Conduct and Ethics, the Declaration on Human Rights and the Anti-Corruption Policy
- Resolves disputes and conflicts of interest
- Approves measures aimed at combating fraud and corruption
- Adopts overarching rules for further implementation within the Company's internal documents in the areas of business conduct and ethics

Responsibility for investigating various types of misconduct is assigned to the Security Division.

Enforcement of established policies is enshrined in the KPIs for management of the Security Division in order to encourage:

- carrying out projects to improve activities in the field of combating misconduct within X5
- preventing, uncovering and investigating cases of misconduct, including fraud
- identifying and bringing criminal charges against any individuals engaged in the commission of criminal acts involving corruption

Responsibility for investigating violations in the areas of human rights, labour rights and occupational safety, and for taking the necessary measures is assigned to the Directorate for Organisational Development and Personnel.

### Hotline

X5 Retail Group has established communication channels through which employees and partners can report violations of legal requirements and internal regulatory documents, including the Code of Business Conduct and Ethics, the Code of Interaction with Business Partners, the Anti-Corruption Policy and the Declaration on Human Rights.

**Ethics hotline.** The ethics hotline is managed by the Compliance Department and is intended for Company employees. Use of the ethics hotline is anonymous. The ethics hotline is the main channel of communication for reporting human rights violations, legal violations and corruption. The hotline can be accessed by telephone, email and, since 2018, also through the Company's website and intranet. Personnel awareness has been enhanced, and the quality of investigations has improved. Complaints are analysed for systemic problems/deficiencies as well, and action plans are then developed together with the relevant business units.

**Security Director's hotline** for reporting misconduct by employees of X5 Retail Group. The hotline is intended for Company employees, contractors and third parties.

Violations of the Code of Interaction with Business Partners are investigated by X5's **Conciliation Commission**, which serves as a corporate arbitrator in disputes with business partners. The Commission was established for the purpose of resolving conflicts and disputes in X5's interaction with partners on the basis of the principles of the Code of Good Practice. The Commission's tasks also include improving the efficiency of contractual work done for the Company, creating a platform for direct dialogue between the Company and its partners, and resolving disputes. Violations can be reported through the feedback form on X5's website.

Any report of corruption or human rights violations is subject to an internal investigation. When conducting official internal reviews, the information collected is analysed in its entirety, taking into account evidence confirming one allegation or another, as well as evidence refuting it. The Company guarantees that there will be no retribution against any employees who report violations.

## Conflicts of interest

In 2018, we developed a new electronic service for declaring conflicts of interest and also approved an updated **Procedure for Declaring, Reviewing and Resolving Conflicts of Interest** to expand on the provisions of the Code of Business Conduct and Ethics and the Anti-Corruption Policy. Intended for the declaration, review and resolution of conflicts of interest, the service is administered by the Compliance Department.

The approval of the Procedure in 2018 was aimed at having all office staff redeclare any conflicts of interest, as well as directors of retail facilities and their deputies, which will minimise the risk of misconduct through the use of the new automated service for declaring conflicts of interest. Our goal is to see that all conflicts of interest among employees are redeclared through the service by 1 September 2019.

## Insider trading

Responsibility for granting permission for operations with securities, the investigation and escalation of incidents involving violations of the Code of Conduct on Insider Information is assigned to the Head of X5's Compliance Department.

## Training

New employees are required to familiarise themselves with the Code of Business Conduct and Ethics as part of their introductory training. The main provisions of the Code can be found on the Company's intranet site as part of a distance learning programme.

Employees who interact directly with business partners also receive training on interaction with business partners.

In 2019, updated training on anti-corruption rules and conduct is planned for all employees. Training will be mandatory for all Company employees.

The determination of standards and requirements and the development of training programmes in the areas of ethics, anti-corruption rules and compliance are entrusted to the Compliance Department.

## 2018 Key highlights

- As of 31 December 2018, 100% of Company employees had been informed about the Anti-Corruption Policy.
- In 2019, we plan to complete the automation of the ethics hotline in order to further reduce compliance risks, to support and reinforce ethical behaviour on the part of employees, and to improve morale.
- In May 2018, the classification of complaints was updated, and monitoring is now ongoing, and statistics are being kept regarding confirmed violations based on the results of investigations.
- Additional pages about the ethics hotline were created on the intranet and public websites for X5 and its formats.
- Employees periodically receive internal notifications regarding gifts, the ethics hotline and other issues related to the Company's position on combating fraud and corruption. Management is focused on communicating with employees regarding our values, including our zero-tolerance policy concerning corruption and other misconduct.
- In 2018, additional training was developed on the Code of Interaction with Business Partners. The training is designed for employees who interact directly with business partners.

## Handling of complaints submitted to X5's ethics hotline

Category of violation	2018		2017	
	Total received	Violations confirmed and resolved	Total received	Violations confirmed and resolved
Violations of the Labour Code of the Russian Federation	3,856	823	3,011	197
Violations of the Code of Business Conduct and Ethics	2,196	407	1,836	248