

# Corporate Governance

“

Entrégate a

*Todos a tu alrededor se*

tu negocio.

*contagiarán de tu pasión.*

*Sam Walton*

”

Our company is built on the foundations of integrity and the highest standards of ethics, and we always guarantee strict adherence to the legislation in force in all the countries where we operate.

"Our philosophy has always been simple: We represent the interests our customers."

*Sam Walton*

“ Nuestra filosofía siempre ha sido muy sencilla:

Representamos los intereses de nuestros clientes. ”

*Sam Walton.*



# Board of Directors

## Makeup and Frequency:

- The Board of Directors is comprised only by statutory members.
- Members are appointed each year by the General Ordinary Shareholders' Assembly.
- Independent directors should make up a minimum of 25% of the total amount; currently, 46% of all Directors are independent.
- Minority shareholders, whose shares represent a minimum of 10% of owners equity for the Company, have the right to choose a Director, who may only be removed when the other Board members are also removed. To date, 29.49% of Company shares are traded among the investor public.
- The participation of officers of the Company and its subsidiaries is limited, and only the CEO is a member of the Board.
- The Board of Directors meets at least four times a year; during 2017 there were five sessions held.

## Other practices:

- The Board evaluates the performance of each Director.
- Independent Directors are experienced in the core business of the Company.
- The Board has access to independent advisers.
- The Chairman of the Board is neither allowed to act as Secretary nor to preside over any Board committees.

The Board of Directors obtains the support of two Committees for its duties; said committees must conduct in-depth analysis of subjects pertaining to its field of expertise and offer recommendations to the Board so it may study the information and make the right decision, creating value for our shareholders and stakeholders.



**28%**  
of members are  
women

**46%**  
of members are  
independent



## Members at December 31, 2017

### Chairman

Enrique Ostalé

### Member since

2013

### Directors

Adolfo Cerezo\*

2012

Ernesto Cervera\*

2014

Lori Flees

2016

Guilherme Loureiro

2016

Rafael Matute\*

1998

Richard Mayfield

2015

Roberto Newell\*

2014

Scott Price

2017

Gisel Ruiz

2016

Blanca Treviño\*

2006

\* Independent director

# Primary responsibilities



# Audit and Corporate Practices Committees

These committees have four statutory members, all of them independent.

## Primary responsibilities:

- Selecting the independent auditor for the Company and establishing fees.
- Ensuring the existence of a proper internal control scheme for the Company that meets any and all applicable accounting and legal provisions, and reviewing Company transactions with related parties.
- Reviewing the financial statements and ensuring they are a true and accurate reflection of the financial situation for the Company. They also have a set procedure for receiving, retaining, and responding to claims concerning accounting practices and controls, and any audit issues. Moreover, said committees have the necessary resources for, and are authorized to retain the services of counsel and/or any other outside adviser needed to perform their duties.
- Reducing the risk of conducting operations such that could affect Company worth or could result in the granting of favored conditions to any one group of shareholders.
- Approving policies for the use of properties pertaining to the net worth of the Company.

- Authorizing transactions with related parties, remuneration for the Chief Executive, and remuneration policies regarding relevant company officers.
- Serving as support for the Board of Directors in producing reports on accounting practices.
- Holding private meetings and receiving periodic reports from Internal Audit, Legal, Compliance, and Ethics.
- Calling Shareholders to meetings and ensuring that the order of business includes all points deemed necessary.

## Audit and Corporate Practices Committees

### Chairman

Adolfo Cerezo

### Directors

Blanca Treviño  
Roberto Newell  
Ernesto Cervera

## Primary requirements and practices

Independent auditors are **forbidden** from providing consultancy services to the Company



All members must be **independent** Directors, experts in finance

The partner from the **independent auditing** firm that renders the opinion on the financial statements must be rotated periodically



# Board for the Walmart de México Foundation

**Members at  
December 31, 2017**

**Chairman**

Guilherme Loureiro

**Trustees**

Karina Awad

Alvaro Arrigunaga

Roberto Delgado\*

Jorge Familiar\*

Tanya Farah

Martha Smith\*

Kathleen McLaughlin

Alberto Sepúlveda

Marinela Servitje\*

José Luis Torres\*

\* Independent trustee





# Corporate Responsibility Committee

In keeping with our mission, strategic inclusion of Corporate Responsibility in our business dealings is considered absolutely necessary. Consequently, we have a Corporate Responsibility Committee -one in Mexico and the other in Central America- whose duties include defining long-term strategy for the Company, adjusting business, and decision-making processes pertinent to each of the material subjects. During Committee sessions, special attention is paid to understanding the meaning of Corporate Responsibility for their specific work areas, and acting in accordance with the same.

The CEO presides over the Committee, whose members include the principal Vice Presidents for each of the areas of the Company. Their involvement is fundamental to strengthening Corporate Responsibility and to ensuring the commitment to always doing the right thing in social, environmental, and governance issues. This Committee reports to the Board of Directors of the Company.

## Primary responsibilities



**Establishing** a long-term vision and strategic priorities that are based on what is best for our customers, our business, and for society in general

**Analyzing** risks and internally identifying opportunities that arise so as to improve our performance



**Supporting** the consolidation of structural changes, and establishing action plans, indicators, policies, and procedures

**Leading** the Company towards national and international trends aimed at maintaining our leadership position



# Ethics and Compliance program

Walmart de México y Centroamérica is committed to doing what is right and acting with integrity in everything we do. It is a fundamental part of who we are and the foundations over which we build our success.

We have a dynamic and effective Ethics and Compliance program designed to prevent, detect, and act on any non-compliance regarding legislation in-force and applicable policies and procedures. This program establishes the guidelines that each and every associate must follow to act correctly and in keeping with the values and fundamental principles of the Company.

We have a full time CECO –Chief Ethics & Compliance Officer– who oversees a dedicated team of ethics and compliance personnel.



# Defining the **Ethics & Compliance** Scope

## 14 global compliance subject areas



Anticorruption



Antitrust



Trade



Licenses & Permits



Responsible Sourcing



Environment



Anti-Money Laundering



Privacy



Consumer Protection



Labor & Employment



Health & Wellness



Health & Safety



Food Safety



Product Safety

## Ethics standards and processes



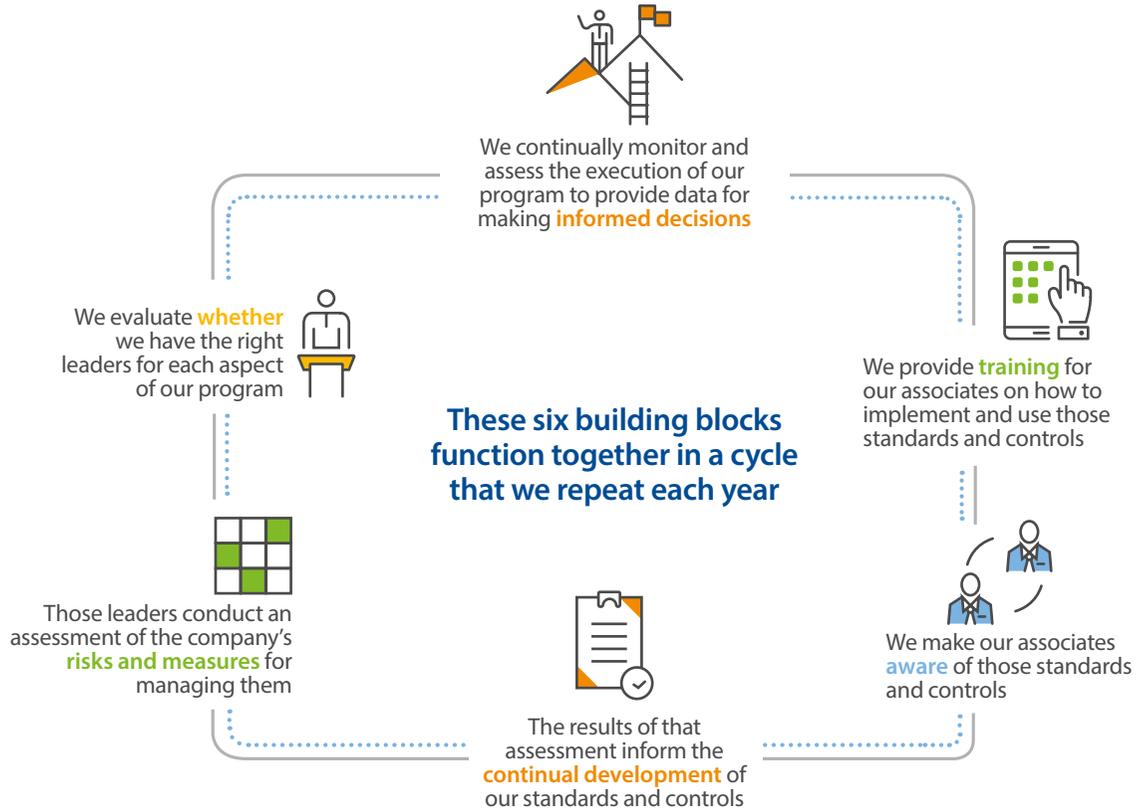
- \* Global Statement of Ethics
- \* Multiple reporting mechanisms in local languages
- \* Advisory function
- \* Intake, triage and tracking for allegations
- \* Case close-out & remediation

We designed Walmart's program to manage the compliance risks associated with 14 different subject areas, ranging from anticorruption to food safety. To provide the relevant expertise in each subject area, we designated 14 Global Subject Matter Leaders and installed Subject Matter Experts for each of the 14 risk areas in each retail market. These Subject Matter Leaders and Subject Matter Experts work together to identify and coordinate common standards and procedures, share best practices, and provide training, monitoring, and support in their subjects. They report to their respective CECOs in each of their business units.

Finally, in response to a variety of guidelines provided by governments and private agencies, we developed six basic building blocks of our unified program:

- Leadership
- Awareness
- Risk assessment
- Training
- Standards and controls
- Monitoring and response

This process keeps our Ethics & Compliance program agile and responsive as our business and the external environment change.



Anticorruption area is relevant for this Compliance Program. The anticorruption team, which is led by Directors in Mexico and Central America, is charged with developing and executing the principles and processes that are part of the **Global Anticorruption Procedure**, based on risk analysis. It is also in charge of training our associates as well as third-party intermediaries and commercial partners.



**Anticorruption**  
 trained +45,500 associates  
 and +690 suppliers  
 G4-S04

We conducted the **proper due diligence of those suppliers** who interact with any government agency so as to identify if said suppliers and their primary officers have been directly or indirectly involved could constitute a risk or negative impact for the Company. Said process should be renewed at least every other year. Once approved, the supplier then receives training on the Anticorruption Policy to ensure awareness and that the policy is followed throughout the duration of their commercial relationship with Walmart. **G4-S03**

**We are committed to maintaining a work atmosphere that encourages our associates to voice any concerns regarding possible violations with our Statement of Ethics, and any repercussions against any associate who presents such concerns are strictly prohibited.**



We conducted **+29,600 hours in Statement of Ethics training** to operations and staff associates, covering 87% and 79%, respectively, in Mexico, in Central America, coverage was 92% and 97%, respectively  
 G4-HR2, G4-HR7

**Reporting mechanisms**



**Open-Door Policy**



**Global Ethics Hotline**

Available **24/7** fully equipped to handle the majority of the local **languages** spoken

Operated by an **independent organization**

There was a **26%** increase in cases reported in Mexico, and **20%** in Central America

G4-HR3, G4-HR12

# Risk Assessment

Walmart de México y Centroamérica performs a Risk Assessment with the purpose of identifying and reducing risks that could affect our operation. Every year, the Risk Assessment is performed by Global Audit Services following the methodology established by Walmart Inc., adapting it to the reality of Mexico and Central America.



**Infrastructure**  
Availability of assets



**Personnel**  
Employee capability, fraud, health and safety



**Process**  
Complexity, level of automation



**Technology**  
Systems and data availability and integrity, development and deployment



**External Risk Factors**

**Economic**  
Financial markets, unemployment, mergers & acquisitions



**Political**  
Government/policy changes, laws and regulations



**Natural Environment**  
Natural disasters such as hurricanes, earthquakes, global warming



**Technological**  
Emerging technologies that represent competitive advantage/disadvantage



**Social**  
Shifts in demographics or social behaviors



**Competition**  
Financial condition and market share of competitors, new market entrants

**External and internal risk factors are taken into account, such as:**

Internal Risk Factors



**Compliance**  
with laws and regulations, internal policies, and standards



### Relevance of the eight major risk categories is considered:

- **Regulatory compliance.** Compliance with laws and regulations.
- **Strategic.** Related to high-level goals, aligned with & supporting the entity's mission/vision.
- **Customer trust.** Actions or conditions that degrade customer confidence in our Company brand, mission, or our standing in the community.
- **Financial accuracy.** Effectiveness of the entity's financial reporting.
- **Core business operational impact.** Loss (including risks for financial performance and condition) resulting from inadequate or failed internal processes, people, and systems that support core business functions.
- **Support business operational impact.** Interruptions resulting from inadequate or failed internal processes, people, and systems within business support functions.
- **Internal compliance.** Compliance with company policies and procedures, contracts, ethics and business conduct standards, and other voluntary corporate standards.
- **Efficiency and effectiveness.** Optimization of Company resources to support the business mission and reward shareholders.

Also taken into consideration are risk factors that help define the magnitude and probability of losses caused by unfavorable events or activities, for example:

- **Operational disruption.** Events such as natural disasters, terrorism, interruption by key suppliers, faulty process changes, system failures, and prolonged adverse weather conditions.
- **Impact on earnings.** Competitive pressures, market economic conditions, financial governance, sustainability of the business model.
- **Impact on strategic initiatives.** Changes in leadership, lack of access to capital or liquidity, actions of competitors, changes in broad economic conditions, and adverse actions by foreign governments.
- **Changes in leadership.** Historical leadership change outcomes, succession planning, training and development
- **Level of automation.** Business reliance on technology and systems, historical dependability, the ability to revert to manual alternatives, and the entity's adoption rate of emerging technology.
- **Compliance requirements.** The ability of the entity to comply with laws, regulations and policies; occurrence of fraudulent, illegal or unethical acts; changing laws; ongoing liabilities and disputes; unsafe products or handling, etc.

- **Changes in processes.** Maturity of processes within the entity, process change management, quality assurance functions, process owner expertise, process documentation.
- **Historic audit results.** Issues identified during previous audit activities that are relevant to the auditable group or component, management tone, status of remediation efforts.
- **Customer insights.** Concerns expressed by business and technology leadership.
- **Other risk assessments.** Results of assessments conducted by internal and external parties that are relevant to the auditable group or component.
- **GFT insights.** Guidance provided by Global Functional Teams in the form of questionnaires, newsletters, interactive meetings, etc. (refer to Risk Assessment Tool Kit Connect site).

Considering market conditions and the risk factors described above, an overall risk rating of **HIGH**, **MEDIUM** or **LOW** is designated in the Risk Assessment for each Company area.

**As a result of risk assessment the following actions are carried out:**

