GOVERNART
think tank & ESG consulting

vigeo eiris

ESG SERIES

CORPORATE GOVERNANCE

2020 Annual Study

Performance of Latin American Companies

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LETTER OF GOVERNART

In recent years we have witnessed an increase in the interest of the media and public opinion in the corporate governance of companies in Latin America, particularly in the practices of public companies listed on the stock market.

Although there is no consensus on the reasons that trigger the interest in the performance of corporate governance in these companies, both corporate failures and disputes between companies, board members and regulators, make evident the failures in their practices and how they are implemented and communicated to their stakeholders, especially to institutional investors.

The existence of a growing interconnection between capital markets is a phenomenon that involves companies in the region: more international investors want to invest in Latin American companies -A buyer's guide to M&A in Latin America, 2018-, which added to the activity of multinational companies of increasing size in Latin American countries, generates greater exposure to the scrutiny of international investors and leads them to compare with similar companies in the region. So, it is worth asking, is the Latin American framework of corporate governance practices sufficiently "competitive" and "comparable" with the best international practices of developed markets? How does corporate governance performance compare among listed companies in Chile, Colombia, Brazil, Mexico and Peru?

To answer these questions, from GovernArt and VigeoEiris we present the Corporate Governance 2020 Annual Study, which analyzes the performance of Latin American companies by evaluating 139 companies in five countries, between August 2017 and August 2019 :

- Brazil: 55 companies
- Mexico: 28 companies
- Chile: 26 companies
- Peru: 18 companies
- Colombia: 12 companies

Our approach is to understand corporate governance as the cornerstone, the central support of business sustainability. Under this approach, both companies and institutional investors manage to mitigate risks and obtain better returns by managing and analyzing, respectively, the areas that give life to corporate governance: Board of Directors, Audit and Internal Controls, Shareholders and their rights, Remuneration of Executives, Prevention of Corruption, Prevention of Anti-Competitive Practices, and Transparency and Integrity of Influence Strategies and Practices.

In Latin America there are important opportunities for both companies and institutional investors to converge around good corporate governance: on the one hand, companies have the opportunity to report their policies, practices and processes in matters of governance to retain and attract investors; on the other hand, institutional investors have the opportunity to use this information to implement responsible investment processes that actively consider this variable, ensuring sustainable returns in the long term.

I invite you to read this Study carefully, in the light of an increasingly dynamic Latin American environment, where corporate governance has begun to be a source of differentiation and creation of business value.

Germán Heufemann L.
Managing Partner
GovernArt

LETTER OF VIGEO EIRIS

Fanny Tora
Head of South American Markets
Vigeo Eiris

In a context where the role and impact of companies in society are highly questioned and under continuous scrutiny, corporate governance bodies have been placed at centre stage, facing important challenges which are sometimes new to them.

Demand is rising for greater transparency, evidence of ethical behaviour, alignment of operations with social challenges of societies, active participation in environmental protection, and the fight against climate change.

Furthermore, many large companies in Latin America are transitioning from a family driven capital and leadership structure towards more international structures in terms of shareholding and operations. Challenges associated with this transition require more transparency and proactivity to demonstrate long term sustainable strategies.

International investors are demanding more and better-quality information on the Environmental, Social and Governance (ESG) strategy and performance of companies. Investors from Latin America are starting follow suit in requesting such information. ESG topics are inherently transversal in corporate strategies, for which they naturally fall under the responsibility of Boards of Directors.

It is important to note that in recent years, large Latin American companies have made efforts to improve the robustness of their internal control and corruption prevention systems. Although there remain areas that need improvement to achieve best practices, Latin American companies are on a quest for betterment.

However, it is necessary for companies to show further initiatives with regards to the following challenges.

On the one hand, transparency on executive remuneration systems is still considered a taboo subject in the region, and it negatively affects investors and civil societies' trust. Disclosing the alignment of high executives' targets with economic, social and environmental mid and long-term targets, can help restore this necessary trust for the continuity of any business. Greater transparency on lobbying practices is also essential to regain this trust.

On the other hand, a higher degree of diversity in the composition of Boards of Directors, such as gender, education, experience, etc., can lead its members to embrace a broader range of topics in business' strategies, thanks to the diverse set of skills and perspectives.

Finally, the growing share of capital owned by minority shareholders makes it necessary to review and upgrade their treatment andrights, especially compared to majority shareholders, who still play an important role in the region.

Pending challenges are deemed paramount for strengthening corporate governance, companies who will lead these necessary transformations will be the first ones to benefit from the related results.

GENERAL DIRECTION AND AUTHORSHIP

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COLLABORATING ORGANIZATIONS

GovernArt

GovernArt provides ESG services to companies and investors in Latin America. Our relationship service provides comprehensive ESG consulting, ratings, financial and ESG communications, and executive training solutions, together with industry expertise and a history of innovation. GovernArt is a signatory of the Principles of Responsible Investment supported by the United Nations, PRI, www.unpri.com, an initiative that facilitates the understanding of sustainable development for investments and supports investors to incorporate ESG into their decisions, so that they are translated in good proprietary practices. By implementing the Principles, investors contribute to the development of a sustainable financial system.

Vigeo Eiris

Vigeo Eiris is an independent international provider of environmental, social and governance (ESG) research and services for investors and public & private organisations, with operations in Santiago, Chile. The agency undertakes risk assessments and evaluates the level of integration of sustainability factors within the strategy and operations of organisations, and conducts risk assessment to support companies and investors in their decisions. Vigeo Eiris provides a wide range of services, such as ESG ratings for investors, ESG assessments and Second Party Opinion of Sustainable Bonds, among others. In April 2019, Moody's acquired majority stake in Vigeo Eiris.


CORPORATE
GOVERNANCE
ANALYSIS

HIGHLIGHTS

ESG SERIES

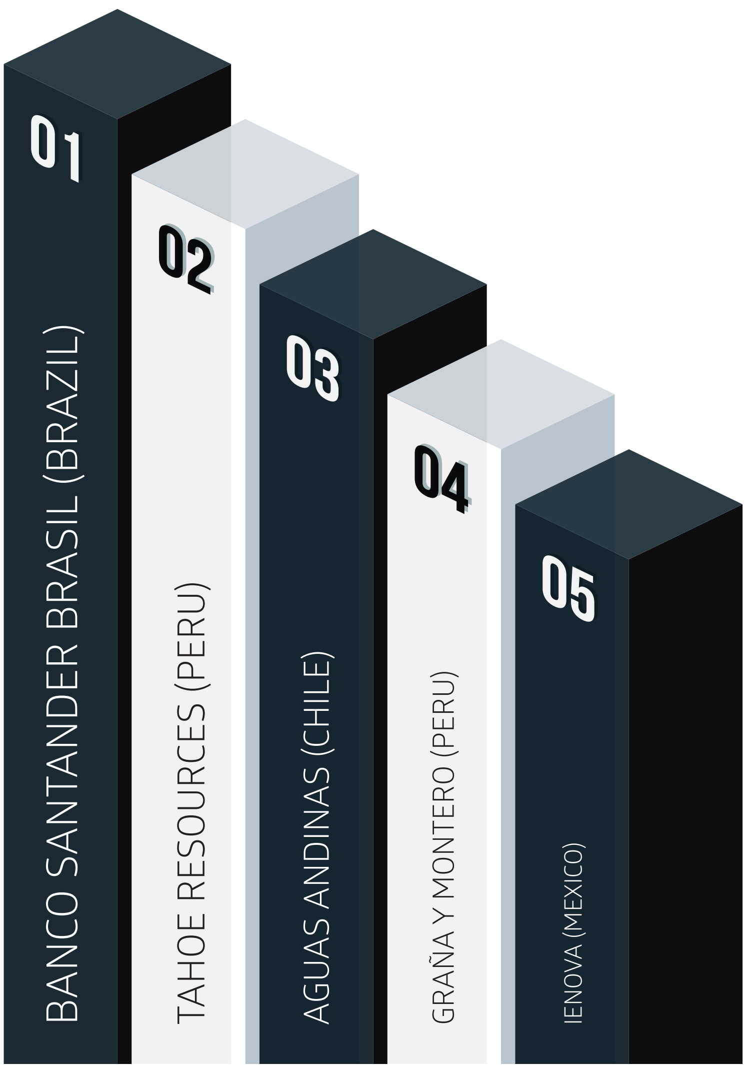
CORPORATE GOVERNANCE
2020 Annual Study
Performance of Latin American Companies

GOVERNART vigeoeiris

AVERAGE SCORE PER COUNTRY (0-100)

COLOMBIA	CHILE	PERU	BRAZIL	MEXICO	LATAM
38	35	33	32	29	33

COMPANY'S TOP 5 IN LATIN AMERICA (2019)



NUMBER OF COMPANIES PER PERFORMANCE RANGE (2019)

0	ADVANCED
4	ROBUST
85	LIMITED
50	WEAK

OF THE 139 COMPANIES...

- **13** include ESG criteria in the remuneration systems of their top executives
- **5** have more than 30% of women on their Board
- **44** have faced a controversy over corporate governance or business ethics
- **31** have more than 50% of independent Board members

ABOUT ESG SERIES

Vigeo Eiris and GovernArt have been promoting ESG integration by investors and companies in Latin America for more than 5 years. Thanks to several initiatives led together, like the ALAS20 one, and to the development of ESG ratings in Latin America, we count today with a broad database of ESG ratings of companies and investors from this region.

For the fourth time, in partnership with the Adolfo Ibáñez University, we make publicly available the results of these ratings through the ESG Series. These studies aim to highlight the main strategies, practices, and trends observed in companies and investors from Brazil, Chile, Colombia, Mexico and Peru, when it comes to integrate ESG aspects in their investment and management strategies.

Topics addressed through the ESG Series are: Investor Relations, Responsible Investment, and Environmental, Social and Governance (ESG) performance.

THE ESG BUSINESS CASE

The integration of ESG (Environmental, Social, and Governance) factors in investment and savings decisions continue to grow, as they are critical issues to be taken into account in investors and companies' strategies, to ensure long term sustainable growth and mitigate risks.

The influence of ESG criteria on the security and valuation of investments is no longer arguable. Integration procedures vary, but all are part of a broader approach towards risk management and sustainable value creation. Taking them into account is to welcome opportunity and innovation, while ignoring them poses major risks.

METHODOLOGY

According to the UN Global Compact, “Governance is the systems and processes that ensure the overall effectiveness of an entity – whether a business, government or multilateral institution”[1]. As the Organization for Economic Cooperation and Development (OECD) states, the purpose of corporate governance is to “help build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies”[2].

The ethical business behaviour of companies is fundamental to a sound contribution of a healthy rule of law and facilitates the implementation of many other societal goals, for example, good corporate governance in public and private companies. Business ethics is closely tied to matters of lobbying, anti-competitive practices and anti-corruption.

The main objective of this study is to observe, through a descriptive analysis, the corporate governance performance of Latin American companies. Vigeo Eiris’ methodology is based on previously mentioned international reference texts.

The performance of 139 companies from five countries was assessed between August 2017 and August 2019:

- **Brazil:** 55 companies
- **Mexico:** 28 companies
- **Chile:** 26 companies
- **Peru:** 18 companies
- **Colombia:** 12 companies

The aspects assessed and the number of companies analysed under each one are the following:

- **Board of Directors:** 133 companies
- **Audit & Internal Controls:** 133 companies
- **Shareholders:** 133 companies
- **Executive Remuneration:** 133 companies
- **Prevention of Corruption:** 139 companies
- **Prevention of Anti-competitive Practices:** 95 companies
- **Transparency and Integrity of Influence Strategies and Practices:** 115 companies

1 UN Global Compact website - accessed in October 2019 - https://www.unglobalcompact.org/what-is-gc/our-work/governance

2 OECD (2015), G20/OECD Principles of Corporate Governance, OECD Publishing, Paris.

REGIONAL RANKING

Symbology: Brazil Chile Colombia Mexico Peru

#1 BANCO SANTANDER BRASIL
#2 TAHOE RESOURCES
#3 AGUAS ANDINAS
#4 GRAÑA Y MONTERO
#5 IENOVA
#6 CEMENTOS ARGOS
#7 VALE
#8 B3
#8 CELSIA
#8 CEMEX
#8 GRUPO SURA
#9 ENEL AMÉRICAS
#9 ENEL CHILE
#10 FIBRIA
#10 LOJAS RENNER
#11 BANCOLOMBIA
#11 FERREYCORP
#12 BRASKEM
#12 CIELO
#12 ECOPETROL
#12 EDP-ENERGIAS DO BRASIL
#12 ITAÚ UNIBANCO HOLDINGS
#13 EMBOTELLADORA ANDINA
#13 ENGIE BRASIL ENERGIA
#13 ITAÚ CORPBANCA
#13 ULTRAPAR
#14 CCU
#15 BANCO SANTANDER CHILE
#15 CEMENTOS PACASMAYO
#15 CEMIG
#15 GRUPO FINANCIERO BANORTE
#15 PARQUE ARAUCO
#15 WEG
#16 COCA-COLA FEMSA
#16 COPEL
#16 ENTEL
#17 COLBÚN
#17 DURATEX
#17 ENEL DISTRIBUCIÓN PERU
#17 ENEL GENERACIÓN CHILE
#17 MASISA
#17 RIMAC SEGUROS Y REASEGUROS
#17 SULAMÉRICA
#17 TIM PARTICIPAÇÕES
#18 BANCO SANTANDER MÉXICO
#18 NUTRESA
#18 ISA
#19 ALMACENES ÉXITO
#19 BCI
#19 EMBRAER
#19 EPM
#19 GRUPO ARGOS
#19 PETRÓLEOS MEXICANOS
#19 VOTORANTIM
#20 BB SEGURIDADE
#20 ECORODOVIAS
#20 SODIMAC
#21 TELEFÔNICA BRASIL
#21 BANCO DE CHILE
#21 CELULOSA ARAUCO Y CONSTITUCIÓN
#21 NEXA RESOURCES PERU
#21 EMPRESAS COPEC
#21 GENTERA
#21 GRUPO AEROPORTUARIO DEL SURESTE
#21 COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO
#22 AES GENER
#22 AES TIETÊ
#22 CCR
#22 COMPANHIA SIDERÚRGICA NACIONAL
#22 ELETROBRAS
#22 EMPRESAS CMPC
#22 YDUQS
#22 KLABIN
#22 NATURA COSMÉTICOS
#22 OHL MÉXICO
#23 BANCO BRADESCO
#23 CREDICORP
#23 ENEL GENERACIÓN PERU
#23 ORBIA ADVANCE CORP.
#23 SUZANO
#24 BRF
#24 CORPORACIÓN ACEROS AREQUIPA
#24 FIBRA UNO ADMINISTRACIÓN
#24 GRUMA
#24 INTERCORP FINANCIAL SERVICES
#24 ITAÚSA
#24 LATAM AIRLINES
#24 SABESP
#24 VIÑEDOS EMILIANA
#25 GRUPO AVAL
#25 M DIAS BRANCO
#25 ODONTOPREV
#25 VOTORANTIM CIMENTOS
#26 AMÉRICA MÓVIL
#26 ARCA CONTINENTAL
#26 AVIANCA HOLDINGS
#26 BANCO DO BRASIL
#26 ENGIE ENERGÍA CHILE
#26 KIMBERLY-CLARK DE MÉXICO
#26 MINAS BUENAVENTURA
#26 MINSUR
#26 PETROBRAS
#26 QUALICORP
#26 WAL-MART DE MÉXICO
#27 CENCOSUD
#27 AMBEV
#27 FEMSA
#27 GRUPO LALA
#27 LUZ DEL SUR
#27 SOUTHERN COPPER
#28 RAIA DROGASIL
#29 ALFA
#29 BANCO BBVA PERÚ
#29 BR MALLS
#29 FALABELLA
#29 INDUSTRIAS PEÑOLES
#29 JBS
#29 TAESA
#30 GRUPO CARSO
#30 GRUPO TELEVISA
#31 GRUPO AEROPORTUARIO DEL PACÍFICO
#31 GRUPO MÉXICO
#31 SQM
#32 BNDES
#32 LOCALIZA RENT A CAR
#33 BACKUS Y JOHNSTON
#33 GRUPO BIMBO
#33 PORTO SEGURO
#34 ENEL DISTRIBUIÇÃO SÃO PAULO
#34 COCA-COLA EMBONOR
#34 USIMINAS
#35 HYPERA
#35 SOCIEDAD MINERA CERRO VERDE
#36 MULTIPLAN
#37 LOJAS AMERICANAS
#37 PINFRA
#38 EL PUERTO DE LIVERPOOL
#39 DIAGNÓSTICOS DA AMÉRICA
#40 GRUPO FINANCIERO INBURSA

REGIONAL HIGHLIGHTS

Board's composition and independence

The independence of the board of directors is key for a good balance of powers between the board and the top management and to ensure that the board is able to protect stakeholders' interests. Companies in Latin America display a low level of independence (34.7%) of the board of directors, under Vigeo Eiris' criteria, 11.9 percentage points below the worldwide average. Only 20% of companies appear to have more than half of the directors considered as independent. Additionally, Latin America companies lack gender diversity at board level, as in average only 8.8% of directors are women. On a positive note, the analysis found that the roles of Chairman and CEO are separated in 86% of the companies, although the Chairman is considered independent in only 15% of them.

Transparency in remuneration of high executives

Executive remuneration is expected to be used as a tool to align the interests of executives with those of the companies and its shareholders. However, companies assessed in the study lack transparency on that topic, as 54% does not report information on executive remuneration, while 43% disclose it on a collective rather than an individual basis. In addition, when it comes to the rules guiding the allocation of short and long-term incentives, companies also fail to provide relevant information: 13% of companies reports on the indicators linked to the allocation of bonuses and other short-term incentives and only one company details the quantitative targets set for these indicators. In addition, as little as 10% of the companies disclose the indicators guiding the allocation of long-term incentives and none provide information on related targets.

ESG in Corporate Governance

Integrating ESG factors in governance systems through strategic planning decision and operational activities, allows companies to develop a strategy behind its ESG choices, to handle social responsibility issues at managerial level, and to monitor and coordinate related operational decisions[3]. Regarding the integration of ESG matters at board level, only 17% of Latin American companies report reviewing these issues during board meetings. In addition, only 28% of companies report having a dedicated sustainability committee within the board, and just eight companies state that the head of sustainability makes regular reports to the committee. As to the types of risks covered by internal controls, 42% of the companies cover at least one ESG-related risk, while 35% appear to implement dedicated processes for the management of these risks, such as balanced scorecards, materiality assessments or risk-related training. Regarding ESG communications to shareholders and investors, 21% of companies appear to present their sustainability strategies to shareholders. Finally, Latin American companies lack transparency on the integration of ESG performance-related conditions in the variable remuneration plan, which serves as an important accountability tool to address these matters.

Internal controls and Business Ethics

Strong audit and internal control systems are considered key components of good governance and essential tools to help companies comply with regulations and manage business ethics risks, including preventing corruption and anti-competition issues. Latin American companies achieve a limited score (38.2/100) regarding disclosure on audit & internal controls. Most companies (75%) report having an audit committee, and 41% report a comprehensive role regarding the committee's responsibilities, while only 10% appear to complement this comprehensive role with a confidential reporting system dedicated to accounting issues.

On business ethics, Latin American companies achieve a limited performance on both the prevention of corruption (45.8/100) and on anti-competitive practices (33.9/100), with a higher level of transparency when it comes to corruption prevention. A total of 91% of the companies disclose a strong commitment towards the prevention of corruption, yet limited measures, namely only a confidential reporting system, to tackle these issues are reported for 42% of companies, while 39% report setting up internal controls and only 8% report having set both internal and external controls. Although 71% of the companies formally commit to prevent anti-competitive practices, companies in the region achieve a weak score 20.8/100 concerning the measures to support their commitment. Out of the 68 controversies faced by the companies linked to corporate governance issues, 'Prevention of Corruption' (34 cases), 'Prevention of Anti-competitive practices' (19 cases) and 'Audit & Internal Controls' (20 cases) as the three areas most impacted. 34 companies are affected by allegations on these topics.

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3 Vigeo Eiris (2013) – Integration of CSR issues into Corporate Governance system – PDF available at http://www.vigeo-eiris.com/wp-content/uploads/2013/06/2013_12_Vigeo_Governance_Study_GB.pdf

COUNTRY RANKING

BRAZIL

- #1 BANCO SANTANDER BRASIL
- #2 VALE
- #3 B3
- #4 FIBRIA
- #4 LOJAS RENNER
- #5 BRASKEM
- #5 CIELO
- #5 EDP-ENERGIAS DO BRASIL
- #5 ITAÚ UNIBANCO HOLDINGS
- #6 ENGIE BRASIL ENERGIA
- #6 ULTRAPAR
- #7 CEMIG
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- #9 SULAMÉRICA
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- #10 EMBRAER
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- #13 KLABIN
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- #15 ITAÚSA
- #15 SABESP
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- #23 USIMINAS
- #24 HYPERA
- #25 MULTIPLAN
- #26 LOJAS AMERICANAS
- #27 DIAGNÓSTICOS DA AMÉRICA

CHILE

- #1 AGUAS ANDINAS
- #2 ENEL AMÉRICAS
- #2 ENEL CHILE
- #3 EMBOTELLADORA ANDINA
- #3 ITAÚ CORPBANCA
- #4 CCU
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- #6 ENTEL
- #7 COLBÚN
- #7 ENEL GENERACIÓN CHILE
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- #13 ENGIE ENERGÍA CHILE
- #14 CENCOSUD
- #15 FALABELLA
- #16 SQM
- #17 COCA-COLA EMBONOR SA

COLOMBIA

- #1 CEMENTOS ARGOS
- #2 CELSIA
- #2 GRUPO SURA
- #3 BANCOLOMBIA
- #4 ECOPETROL
- #5 NUTRESA
- #5 ISA
- #6 ALMACENES ÉXITO
- #6 EPM
- #6 GRUPO ARGOS
- #7 GRUPO AVAL
- #8 AVIANCA HOLDINGS

MEXICO

- #1 IENOVA
- #2 CEMEX
- #3 GRUPO FINANCIERO BANORTE
- #4 COCA-COLA FEMSA
- #5 BANCO SANTANDER MÉXICO
- #6 PETRÓLEOS MEXICANOS
- #7 GENTERA
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- #8 OHL MÉXICO
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- #15 GRUPO MÉXICO
- #16 GRUPO BIMBO
- #17 PINFRA
- #18 EL PUERTO DE LIVERPOOL
- #19 GRUPO FINANCIERO INBURSA

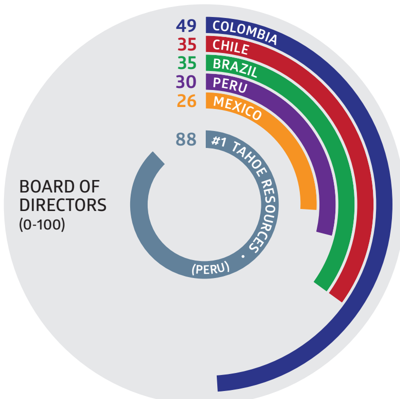
PERU

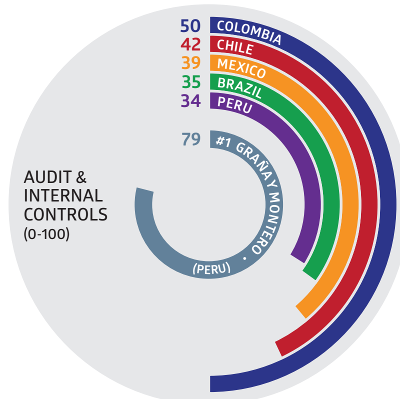
- #1 TAHOE RESOURCES
- #2 GRAÑA Y MONTERO
- #3 FERREYCORP
- #4 CEMENTOS PACASMAYO
- #5 ENEL DISTRIBUCIÓN PERU
- #5 RIMAC SEGUROS Y REASEGUROS
- #6 NEXA RESOURCES PERU
- #7 CREDICORP
- #7 ENEL GENERACIÓN PERU
- #8 CORPORACIÓN ACEROS AREQUIPA
- #8 INTERCORP FINANCIAL SERVICES
- #9 MINAS BUENAVENTURA
- #9 MINSUR
- #10 LUZ DEL SUR
- #10 SOUTHERN COPPER
- #11 BANCO BBVA PERÚ
- #12 BACKUS Y JOHNSTON
- #13 SOCIEDAD MINERA CERRO VERDE

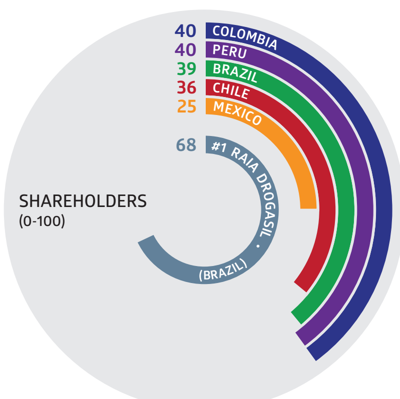
COUNTRY HIGHLIGHTS

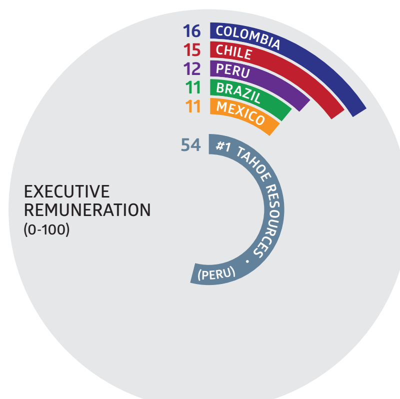
PERFORMANCE IN AREAS OF CORPORATE GOVERNANCE AND BUSINESS BEHAVIOUR AVERAGE SCORE (0-100)

CORPORATE GOVERNANCE

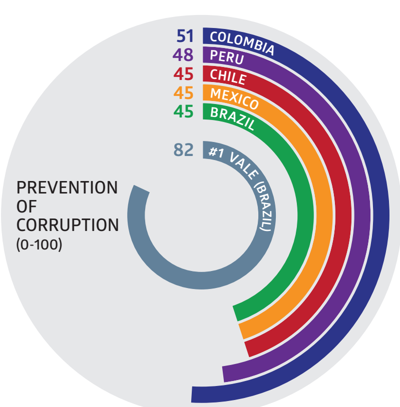


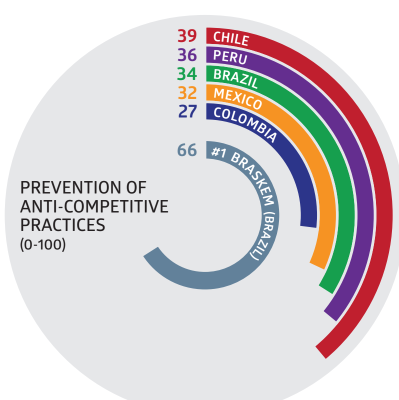


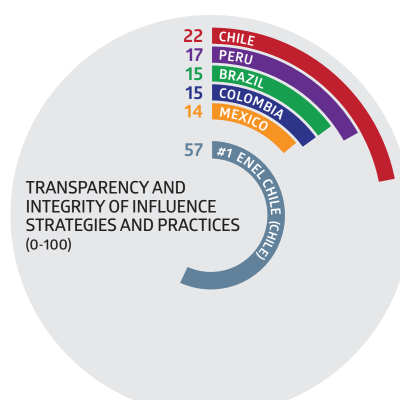




BUSINESS BEHAVIOUR

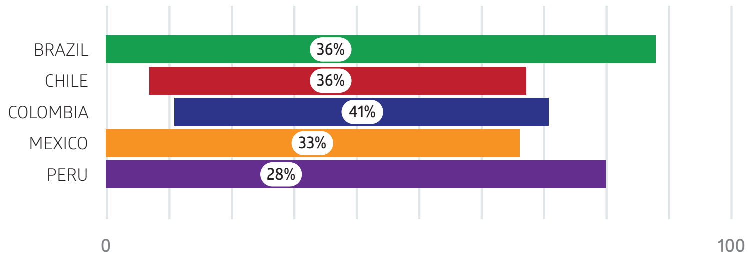




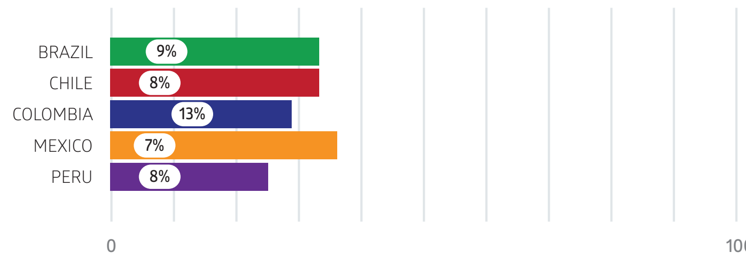


KEY PERFORMANCE INDICATORS

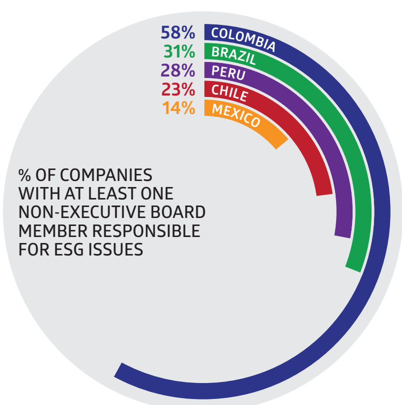
PERCENTAGE OF INDEPENDENT BOARD MEMBERS

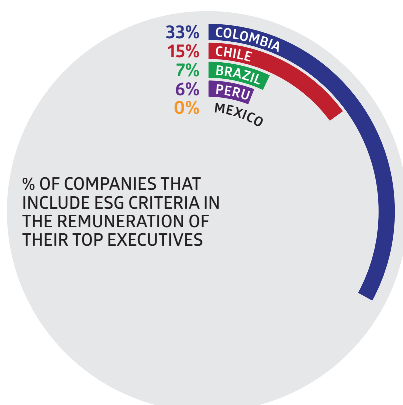


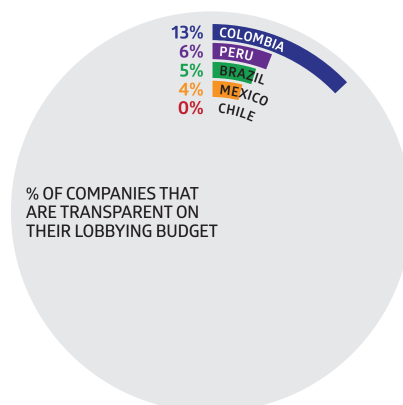
PERCENTAGE OF WOMEN ON BOARD



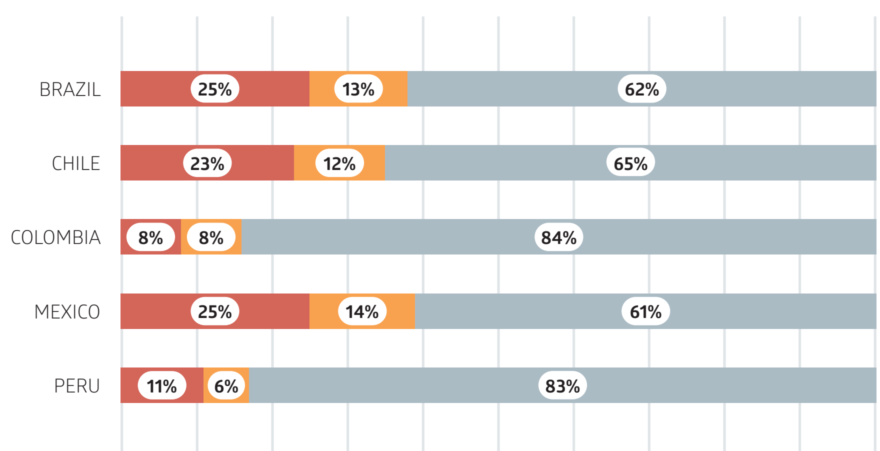
RANGE | AVERAGE







PERCENTAGE OF COMPANIES INVOLVED IN CONTROVERSIES

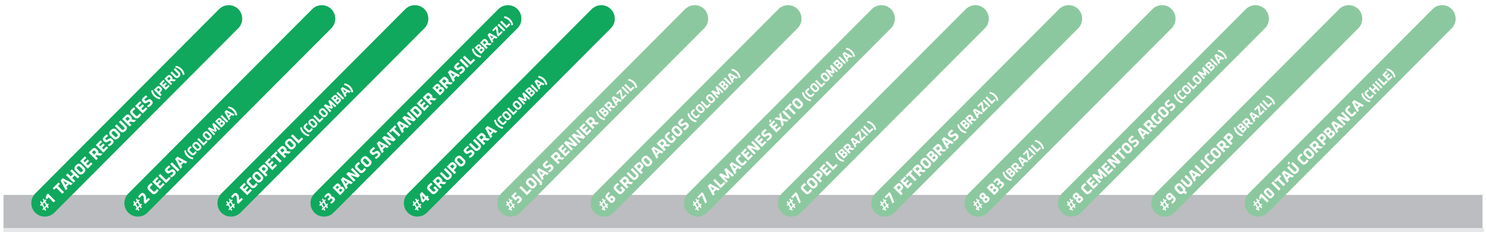


CRITICAL OR HIGH SEVERITY | SIGNIFICANT OR MINOR SEVERITY | NO CONTROVERSIES

CORPORATE GOVERNANCE
Board of Directors

Average Scores:

Colombia	Chile	Brazil	Peru	Mexico	**LATAM**
49	35	35	30	26	34



SCORE: **ADVANCED:** 60 TO 100 POINTS | **ROBUST:** 50 TO 59 POINTS | **LIMITED:** 30 TO 49 POINTS | **WEAK:** 0 TO 29 POINTS

1.- Overview

The effectiveness of the board of directors is evaluated to ensure that appropriate controls are exercised over top management. The main issues analysed in this section are the board's composition and functioning. Particular attention is given to the separation of the roles of the CEO and Chairman, the board of director's level of independence, the skills and background of non-executive directors and the access to information and training offered to board members, including in relation to ESG risks. Attention is also paid to whether the board is held accountable to company shareholders through regular elections and regular performance assessments. Finally, the board's accountability to other stakeholders is evaluated through the board's responsibility for sustainability issues and its approval of the company's sustainability strategy.

2.- Global performance of LATAM companies

On average, the 133 listed companies evaluated in Latin America obtain an overall limited score of 33.6/100 in relation to their boards' composition and functioning, which stands below the worldwide average performance (43.2/100). Moreover, the average percentage of information that these companies disclose is 63.7%, which stands 12.5 percentage points below the worldwide average (76.2%).

The average level of board independence in the region is 34.7%, 11.9 percentage points below the worldwide average. In addition, 46% of companies are assessed to have a board independence level of between 0% and 33%, while only 20% of companies are deemed to have a board independence level of over 50%. Most companies (86%) report that the roles of Chairman and CEO are separated, but the Chairman is considered independent for only 15% of companies. Board diversity and inclusion are also analysed and the average percentage of women on the board in these companies is 8.8%, 10.6 points below the worldwide average.

Regarding the integration of ESG matters into the corporate governance structure, only 17% of companies report reviewing ESG issues during board meetings. In addition, only 28% of the companies report having a dedicated sustainability committee within the board, and just eight companies state that the head of sustainability makes regular reports to the committee.

In terms of board functioning, most companies (64%) report having regular board meetings (at least four times per year). However, only 26% of these meetings have an attendance rate above 90%. As for board members' elections, 58% of the companies report that board members are elected at least every three years, and only 29% have annual elections. In addition, few companies (26%) report having a specific committee in charge of director nomination, and in only eight companies are the majority of its members considered independent.

Although 45% of the companies report evaluating the board's performance regularly, third-party evaluations are performed for only 12% of companies and even fewer (2%) also disclose the results of such evaluations. 39% of companies report providing training for directors and five companies report that these training programmes are regular and cover ESG issues.

3.- Noteworthy trends

Colombian companies in the universe outperform those from other countries in the region with an average score of 48.5/100. Although this represents a limited performance, it is still 14.9 points higher than the regional average and 5.3 points higher than the worldwide average. On the other hand, Peruvian companies display a lower average score (30.2/100), but the highest individual score regarding board performance (88/100, Tahoe Resources).

GOVERNART

Colombian companies are affected by a code applied in 2014 *(Nuevo Código País, Circular Externa 028 de 2014),* which is comprised of 33 measures and 148 recommendations regarding equal treatment and shareholders' rights, general shareholders' meetings, the board of directors, control architecture and general transparency.

Moreover, other national laws *(Ley 964 de 2005, Ley de Mercado de Valores, Código de Comercio and Ley 222 de 1995)* regulate matters regarding the board of directors. For example, in Colombia, the board must be comprised of a minimum of five directors, and at least 25% of these directors must be considered independent. However, the definition of independence required by the Colombian legislation is less thorough than Vigeo Eiris' and obeys to different criteria. Although this 25% of board independence level is considered low by Vigeo Eiris' standards, these regulations could still be viewed as an incentive for companies to implement responsible governance.

4.- Top performers

Out of all the companies analysed, only five demonstrate an advanced performance (over 60/100) in board effectiveness matters. The top three best performing companies are:

- **Tahoe Resources** (88/100) - Mining & Metals, Peru
- **Celsia** (66/100) - Electric & Gas Utilities, Colombia
- **Ecopetrol** (66/100) - Energy, Colombia

It is worth noting that two of these top-performing companies are Colombian. All three companies have a board of directors with a level of independence above 50%, and the roles of CEO and Chairman are separated. Although the Chairman is not considered independent in any of the companies, Tahoe Resources has designated an independent lead non-executive director. Despite these companies' overall advanced performance, diversity appears to be partial since none of them have employee representatives sitting on the board nor are at least 30% of their directors female.

All companies conduct regular board performance evaluations conducted by a third party, but only Celsia and Ecopetrol disclose the results of these evaluations. Moreover, board meetings are regular, and attendance rates are above 80%. Training is provided for all board members, however, only Celsia reports providing ESG-related education.

Although the three companies have a sustainability committee within the board, Tahoe Resources has the most comprehensive approach, since topics discussed at board meetings explicitly include human capital, community issues and the environment. On the other hand, Ecopetrol's board seems to only discuss matters relating to money laundering and Celsia does not disclose the detail of the specific ESG issues discussed at board level.

Finally, Tahoe Resources can be considered an outlier in relation to other companies. This advanced performance could be explained by the company's acquisition by Pan American Silver Corp., a North American company that might have required higher disclosure from Tahoe Resources in corporate governance matters. In this regard, Pan American Silver Corp. stated that its intention was to create the world's premier silver mining company.

5.- Controversies

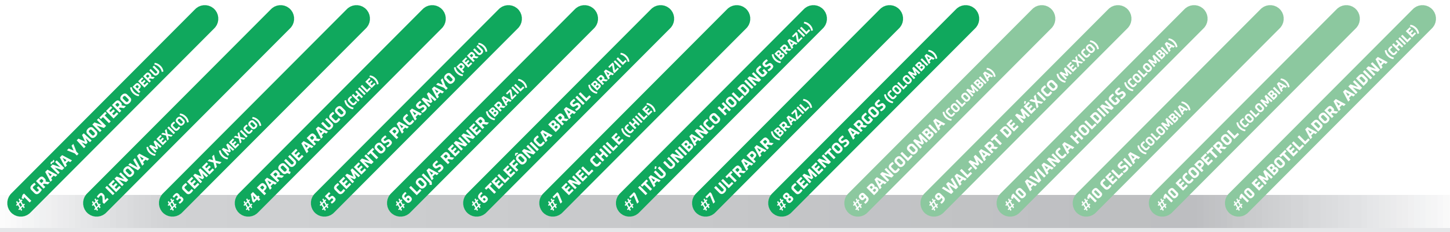
For the period and universe of companies analysed, there are only seven allegations relating to the board of directors. The majority (4) of these allegations are concentrated in Brazil while the remaining three affect companies in Chile, Colombia and Peru.

Two of these allegations are of critical severity and are made against the same company, Vale (Mining & Metals, Brazil). The Company's case commenced with the rupture of a tailing dam at its Feijão mine in Minas Gerais, Brazil, in January 2019. As of January 31st, the death toll of the disaster stood at 110 people, while another 238 were missing. Three of Vale's top executives, including the CEO and the Ferrous and Coal Head, agreed to step aside temporarily at the request of prosecutors who were building a case of criminal negligence.

CORPORATE GOVERNANCE
Audit & Internal Controls

Average Scores:

Colombia	Chile	Mexico	Brazil	Peru	**LATAM**
50	42	39	35	34	38



SCORE: **ADVANCED:** 60 TO 100 POINTS | **ROBUST:** 50 TO 59 POINTS | **LIMITED:** 30 TO 49 POINTS | **WEAK:** 0 TO 29 POINTS

1.- Overview

Companies are expected to ensure that financial information provided to the public is accurate and that company risks are appropriately managed. In particular, the efficacy and exhaustiveness of the internal control systems, as well as the comprehensiveness of the role of the audit committee and external auditors, are assessed. Members of the audit committee are expected to be independent and have financial and/or audit skills and backgrounds. In addition, attention is paid to whether sustainability risks are integrated within the company's internal control framework as well as the implementation of processes to manage the company's sustainability risks. Since sustainability is relevant to all parts of a business, companies should demonstrate that they are evaluating all potential sustainability-related risks as a fundamental part of the organization's strategy, and not just as a stand-alone proposition.

2.- Global performance of LATAM companies

Latin American companies obtain an overall limited score of 38.2/100 in audit and internal control matters, which is below the worldwide average performance of 45.7/100. Additionally, the average percentage of information disclosed by these companies is 74.9%, which is 9.4 percentage points below the worldwide average.

Most of the companies (75%) have a specific audit committee in place. In particular, 34% of the companies have an audit committee composed of a majority of independent members, while only 20% of the companies have a fully independent committee. Most of the companies (53%) state that their audit committee members have financial or audit experience and relevant operational experience, but only 6% declare that at least one member has ESG skills and experience.

Regarding the committee's responsibilities, 41% have a comprehensive role, which includes overseeing internal audit and controls, reviewing and updating accounting policies, nominating statutory auditors and overseeing the work and fees paid to external auditors. Only 10% of the companies report that the comprehensive role of this committee is complemented with a confidential reporting system dedicated to accounting issues.

Most of the companies (56%) do not disclose information on audit and non-audit fees paid to external auditors, which does not allow an assessment of their independence, and 16% declare that non-audit fees represent only 5% or less of the total fees, which is the level recommended by international standards.

Regarding the types of risks covered by internal controls, 47% of the companies' systems appear to cover only standard issues related to financial, operational and legal risks, while 42% cover at least one ESG-related risk. ESG-related risk topics include business ethics, employees' health and safety, customer relations and energy efficiency, depending on the company's business area. As to the management of these risks, 35% of the companies appear to implement dedicated processes, such as balanced scorecards, materiality assessments or risk-related training. Most companies (58%) publish significant ESG quantitative data on key material issues, but only 17% have audited this data with an independent third-party assessment. As best practice, a company should have a quality assurance report provided on its ESG reporting with clear recommendations for improvements going forward, which is the case for only two companies in the region.

It is worth mentioning that some of the topics evaluated vary slightly for companies in the finance sector. A total of 25 companies from this group were analysed regarding risk governance and 60% of them have adopted at least one recommended measure, such as having a board risk committee with no executive members on it. However, none of the financial companies disclose information regarding the existence of mechanisms to identify and supervise employees considered as material risk-takers (individuals in roles that have a material impact on the company's risk exposure).

Finally, 17 companies (diversified, retail and specialised banks) were assessed on their leverage ratio, which is a financial measurement that gauges how much capital comes in the form of debt and indicates the ability of a company to meet its financial obligations. In this regard, all the companies displayed ratios above 5%, which is the level recommended by the OECD.

3.- Noteworthy trends

Colombian companies have the highest score (49.9/100) on average and the highest information disclosure rates (83.5%), followed by Chilean companies (42.4/100). It is worth noting that none of the top-performing entities are headquartered in the before mentioned countries.

Mexican companies have an average limited score of 38.9/100, slightly higher than the regional average (38.2/100), but 6.8 points below the worldwide average (45.7/100). However, the second and third best-performing companies are based in this country.

Despite having the best performer (Graña Y Montero, 79/100), Peruvian companies have the lowest average score in the region (33.5/100), 16.4 points below Colombian companies. However, the Peruvian Government seems to allocate some resources to the promotion of corporate governance in the private sector.

As an example, in 2014 the Peruvian Stock Market Superintendence launched a new code for good corporate governance, for Peruvian companies to integrate good practices in these matters, such as responsible risk management. Moreover, Lima's stock market has developed a governance good practice index (IBGC), which is a statistical indicator that reflects Peruvian companies' compliance with the Principles of Good Corporate Governance for Peruvian Societies.

4.- Top performers

Of the 133 companies analysed, 11 show an advanced performance (over 60/100). The top three best-performing companies regarding auditing issues are:

- **Graña Y Montero** (79/100) - Heavy Construction, Peru
- **IEnova** (76/100) - Electric & Gas Utilities, Mexico
- **CEMEX** (75/100) - Building Materials, Mexico

Graña Y Montero and IEnova have all-independent audit committees in place, while at CEMEX, only one member of the committee is considered to be independent. All three committees comprise members with financial, auditing and operational experience, but none appears to have ESG expertise.

Regarding external auditors, non-audits fees represent only 5% or less of the total fees paid to external auditors in all three companies. Moreover, Graña Y Montero's external auditors receive no non-audit-related fees. Additionally, IEnova and CEMEX's ESG reporting is externally audited for its reliability.

As for the integration of sustainability-related risks in the companies' internal control systems, all three acknowledge their vulnerability to corruption risks. In relation to this, IEnova covers the most relevant issues for its sector, including health and safety, climate change and community relations. On the other hand, CEMEX has the strongest processes dedicated to managing ESG risks, including the monitoring of risk indicators. Finally, the three companies have a confidential reporting system in place for accounting issues.

5.- Controversies

Out of the total Latin American universe, 15 companies face a total of 20 controversies relating to auditing and internal controls, of which three are critical and 12 are of high severity.

The majority (59%) of these accusations are directly related to audit & internal controls and 23% are related to tax fraud. The remaining accusations are associated with accounting scandals (9%), embezzlement (5%) and insider trading (5%). It is worth noting that three of the five tax fraud allegations relate to activities in Brazil.

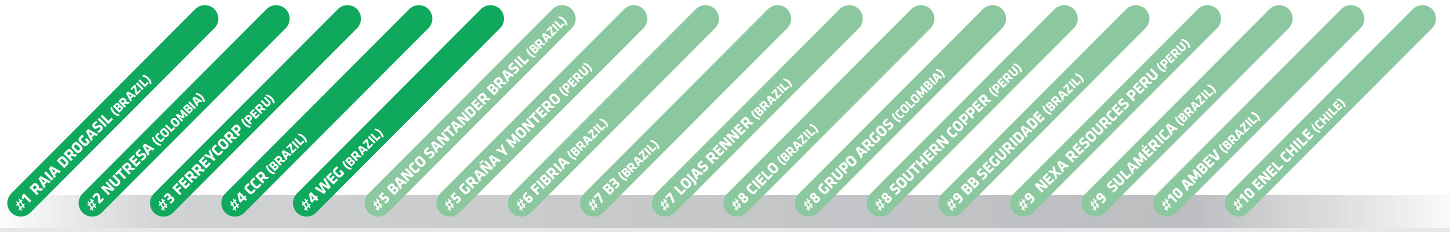
A noteworthy critical case involved Petrobras (Energy, Brazil). According to the *Financial Times*, on December 11, 2014, six U.S. law firms began class-action proceedings against Petrobras to recoup money for U.S. investors following a multibillion-dollar corruption scandal. Among other associated allegations are misreporting balance sheets to cover up the fraud and overpaying for refineries. In November 2014, Petrobras delayed the release of third-quarter results after auditors refused to sign off on them following corruption allegations.

In September 2018, *The Times* reported that Petrobras had agreed to pay USD 853.2 million to settle charges that former executives and directors of the state-controlled company broke the U.S. Foreign Corrupt Practices Act by bribing politicians. Under the agreement, Petrobras must deposit USD 682.6 million in a special fund in Brazil, with the rest of the fine being split between the U.S. Department of Justice (DOJ) and the U.S. Securities and Exchange Commission (SEC).

CORPORATE GOVERNANCE
Shareholders

Average Scores:

Colombia	Peru	Brazil	Chile	Mexico	**LATAM**
40	40	39	36	25	36



SCORE: **ADVANCED:** 60 TO 100 POINTS | **ROBUST:** 50 TO 59 POINTS | **LIMITED:** 30 TO 49 POINTS | **WEAK:** 0 TO 29 POINTS

1.- Overview
Companies are expected to ensure the fair and equal treatment of all shareholders, and particularly, to respect the one share-one vote principle. For this reason, companies are evaluated on how they guarantee the rights of shareholders to participate in annual general meetings and to adopt resolutions. In addition, they should promote and facilitate the exercise of voting rights and avoid the implementation of anti-takeover devices, which limit the company's access to capital from international markets and prevent the efficient functioning of the market for corporate control. Finally, attention is paid to whether company sustainability strategies are properly communicated to shareholders and investors.

2.- Global performance of LATAM companies
The region's average score regarding shareholders' rights is 36/100, 11.4 points below the worldwide average (47.4/100). The average information disclosure rate from companies is 70.8%, also below the worldwide average by eight percentage points (78.8%).

While most companies in the region (62%) respect the one share-one vote principle, 21% report that they have minor voting restrictions in place, such as preferred shares, and 7% report having major voting restrictions, such as golden shares and voting caps. In addition, although the majority of companies (69%) report that they place no major restrictions on shareholders' ability to vote (such as the restriction of proxy voting by a spouse or partner, or the prevention of voting by mail), only 14% have made services available for shareholders to vote online.

Additionally, 80% of the companies do not make references to anti-takeover mechanisms in their reporting. Moreover, 119 companies with major shareholders (owning over 10% of shares) were evaluated on the presence of safeguards for transactions with such shareholders. Only 24% of the companies analysed report that safeguards, such as specific committees in charge of approving related party transactions, have been introduced. Added to this, only 6% also have a board comprised of a majority of independent members.

A minority of companies (29%) report that there are no major restrictions (over 5% of share ownership) for shareholders to convene an Extraordinary General Meeting (EGM) or to add items to the agenda of the Annual General Meeting (AGM).

Major items should be subject to shareholders' approval, namely board members election, board fees, selection of external auditors, executive remuneration, changes in capital, changes to bylaws and extraordinary transactions. In this regard, very few companies (18%) report that all these major items are put to a vote at AGMs, and even fewer (11%) that these items are voted on in separate resolutions.

Companies are also assessed on the presentation of their ESG strategies to investors and shareholders. While only 21% of companies report that their sustainability strategies are presented to shareholders, 75% do not seem to disclose any related information. Finally, it appears that no opposable ESG-related resolution was put forward by the analysed companies' shareholders.

3.- Noteworthy trends
Regarding shareholders' rights, Colombian and Peruvian companies have the highest average score (40.2/100) in the Latin American region. Although this performance is 4.2 points above the regional average (36/100), it is still limited and stands 7.2 points below the worldwide average. This is consistent with the top-performing companies since they are headquartered in the three countries with the highest average scores.

On the other hand, Mexican companies have the lowest average scores (24.7/100) and information disclosure rates

(55.6%) in the region. It is worth noting that 37% of the Mexican companies analysed have anti-takeover devices in place, and 56% do not seem to apply any safeguards on transactions with major shareholders.

This weak performance of Mexican companies may be influenced by Mexican law which permits companies to issue several types of restricted shares, such as preferential and limited voting shares (also allowed in Chile but prohibited in Colombia and Peru). Moreover, minority shareholders' rights do not seem to be fully protected, since legal requirements only consider a 10% ownership as the minimum to exercise some voting rights.

4.- Top performers

Only five of the 133 companies analysed demonstrate an advanced performance (above 60/100). Out of this group, the three best performing companies are:

- **Raia Drogasil** (68/100) - Specialised Retail, Brazil
- **Nutresa** (66/100) - Food, Colombia
- **Ferreycorp** (62/100) - Industrial Goods & Services, Peru

All three companies respect the one share-one vote principle and no anti-takeover device was identified in their reporting. Raia Drogasil does not have a major shareholder and only Ferreycorp appears to implement safeguards to monitor transactions with its major shareholders, such as procedures and policies at board level.

No major restrictions on shareholders' ability to vote were identified at any of the three companies, and they offer the possibility to vote using online services. Moreover, all major items are voted upon in separate resolutions at Raia Drograsil and Nutresa. However, Ferreycorp does not seem to include executive remuneration among its resolutions.

While Raia Drograsil does not report if its ESG strategy is presented to investors and shareholders, Nutresa and Ferreycorp present their sustainability strategies, which cover most of the ESG issues relevant for their sectors, such as fundamental human rights, labour standards in the supply chain and environmental issues.

5.- Controversies

Out of the total Latin American universe, six companies face a total of eight controversies relating to shareholders' rights. Two of the controversies are considered of critical severity, five to be of high severity and one to be of minor severity. Major controversies related to other topics, like shareholders expressing discontent about the governance structures or the rejection by the company of shareholders' proposals on ESG topics, have not been reported.

The two critical cases affect Brazilian companies. One of these controversies relates to the Braskem's "Car Wash" case. In July 2015, one of the company's shareholders sued Braskem (Chemicals, Brazil), accusing it of involvement in a graft scandal.

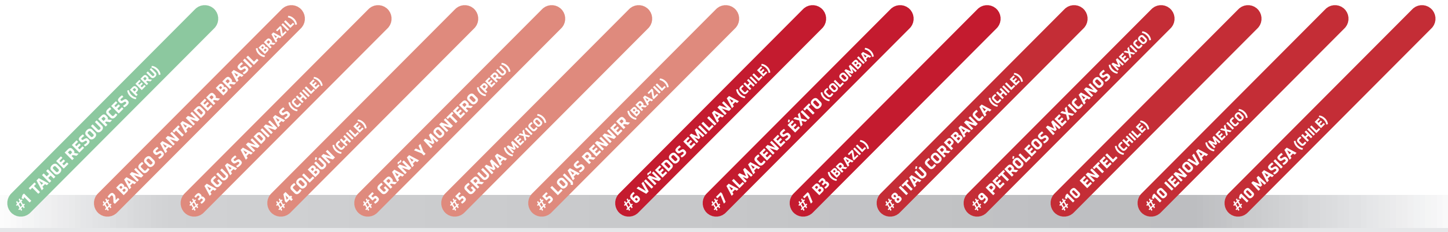
Braskem and four executives, who were working for or were linked to the company, were accused in the suit of making materially false and misleading statements regarding the company's business, operational, and compliance policies. In December 2016, U.S. and Brazilian authorities imposed a USD 2.5 billion fine in foreign corruption penalties on Odebrecht and its affiliate Braskem for violating anti-bribery laws. Indeed, Odebrecht and Braskem paid officials at Petrobras to win contracts. Odebrecht and Braskem pleaded guilty to charges involving the U.S. Foreign Corrupt Practices Act. In December 2016, Braskem announced it would pay USD 957 million in penalties and damages for a global settlement related to the Operation Car Wash corruption and kickback scandal.

Finally, in May 2019, Braskem said in a filing that it had approved a leniency deal with Brazil's comptroller general's office and the government's solicitor general in the Car Wash corruption case. According to the agreement, the company will pay BRL 410 million (USD 101 million).

CORPORATE GOVERNANCE
Executive Remuneration

Average Scores:

Colombia	Chile	Peru	Brazil	Mexico	**LATAM**
16	15	12	11	11	13



SCORE: **ADVANCED:** 60 TO 100 POINTS | **ROBUST:** 50 TO 59 POINTS | **LIMITED:** 30 TO 49 POINTS | **WEAK:** 0 TO 29 POINTS

Key aspects under review are the existence and independence of a remuneration committee, the level of transparency on senior executives' individual remuneration, the adoption of clear performance indicators and targets for the allocation of annual bonuses, the adoption of long-term incentives linked to transparent multiyear performance conditions, with targets ideally linked to performance peer groups, the integration of material ESG performance conditions in the variable remuneration plan, and the adoption of specific thresholds on severance payments. The methodology also questions and takes into account the trend of the gap between CEOs' total compensation and the average salary of employees, and more generally the alignment of executive remuneration with the overall remuneration and ESG strategies of the company.

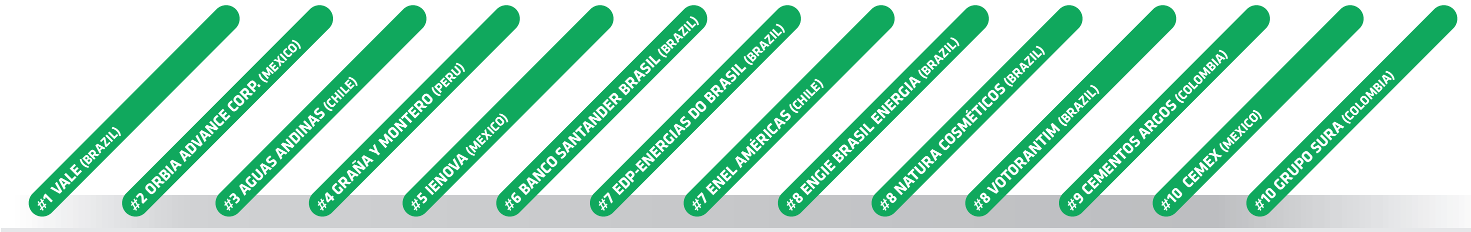
Overall, the region achieves a weak performance (12.5/100) in terms of disclosing information on executive remuneration, which is well below the worldwide average score (31.5/100). The weak performance leads to a low level of assurance of companies' abilities to manage related risks. Good practices regarding executive remuneration are considered to make a direct contribution to the prevention of illegal conflict of interests and protection of corporate cohesion.

Tahoe Resources, a Peruvian company in the mining and metals sector, achieves the highest performance (54/100) in the LATAM universe and is the only company displaying a robust performance. It is worth noting that the company is headquartered in the U.S. which explains its robust performance on this issue, as U.S. federal securities laws require the disclosure of the compensation of high-ranking executives including CEOs .

BUSINESS BEHAVIOUR
Prevention of Corruption

Average Scores:

Colombia	Peru	Chile	Mexico	Brazil	**LATAM**
51	48	45	45	45	46



SCORE: **ADVANCED:** 60 TO 100 POINTS | **ROBUST:** 50 TO 59 POINTS | **LIMITED:** 30 TO 49 POINTS | **WEAK:** 0 TO 29 POINTS

1.- Overview

Companies are evaluated on their commitments and on the actions they take to prevent all forms of corruption and conflicts of interest (relating to both public and private actors). Particular attention is paid to the prohibition of under-the-table payments, facilitation payments, gifts and invitations, extortion, fraud, embezzlement, money laundering, illegal financing of political parties (given national regulations) and the prevention of conflicts of interest. Companies are assessed on having an efficient control and reporting system to prevent corrupt behaviours and on actions taken for disseminating a culture of ethical conduct within the organisation.

2.- Global performance of LATAM companies

Overall, companies under assessment display a limited performance related to the prevention of corruption, with an average score of 45.8/100. However, this performance stands above the worldwide average performance of 38.7/100. The average percentage of information disclosed by these companies is 87.8%, which is 7.6 percentage points above the worldwide average (80.2%).

While 91% of companies formally commit to prevent corruption, only two companies have additionally set quantitative targets in this regard. For instance, CEMEX, a Mexican construction company which operates worldwide, has a target to achieve an annual compliance rate of 90% with the Global Compliance Programme in the countries where it operates. This programme covers anti-bribery issues, among others. Moreover, 53% of companies commit to address their main responsibilities while only 13% refer to recognised international standards regarding corruption prevention, such as anti-corruption guidelines published by the Organisation for Economic Cooperation and Development (OECD) and European Union legislation. In addition, 38% of companies report that their commitment is supported by senior management, while 48% of the companies also appear to involve their employees in the oversight of these commitments.

To support their commitment, 40% of companies report involving relevant employees, such as sales staff and purchasers, by instituting corruption prevention training programmes, while very few companies (15%) also report involving contractors in corruption prevention. Only 7% of the companies report having set up a system to ensure that relevant employees are held personally responsible for preventing corruption, for instance, by requesting employees to sign relevant documents or submit a written oath of integrity.

Regarding means allocated to address corruption, 42% of the companies appear only to have a confidential reporting system in place, while 39% report setting up internal control systems such as risk assessments of company vulnerability, internal audits, due diligence in evaluating contracts, etc. Only 8% of the companies report setting up both internal and external controls, as well as a confidential reporting system. Of the total companies that report measures, 60% state that these cover significant parts of their companies.

Additionally, business ethics and the prevention of money laundering are key issues for banks, which have been involved in scandals relating to these areas. Therefore, financial institutions are further assessed on implementing measures to counter money laundering, given that related misconduct undermines the efforts of states to enhance global security. Companies in the finance sector comprise around 19% of the total companies in the LATAM universe: 70% of these companies report allocating some measures to prevent money laundering, such as risk assessments or procedures for identifying and following up on unusual or suspicious activities. 22% of the companies report having a permanent system to prevent money laundering which includes measures such as thorough assessments for jurisdictions with higher levels of organised crime. Only one company reports setting up permanent measures to prevent money laundering as well as a confidential reporting system. 74% of the total companies which report having measures to prevent money laundering also state that these measures cover all significant parts of their operations. Only one company reports that their measures cover sale agents and business partners.

Only few companies (17%) disclose information on corruption incidents reported internally. Similarly, 17% of the companies report on corruption incidents and how they were handled. A small percentage (4%) of companies disclosed that no corruption incidents were reported internally.

Despite the significant commitment towards corruption prevention, Latin American companies appear to have limited measures in place to tackle the issue, which contributes to the overall limited performance in the region. Although the majority of companies appear to have reporting systems, 92% of the companies lack both internal and external controls together with a confidential reporting system, which can impact companies' ability to prevent unethical business practices and address serious legal, market, reputational, operational and compliance risks related to corruption.

3.- Noteworthy trends

Colombian companies outperform companies from the other countries in Latin America with an average score of 51.4/100, which represents a robust performance and it is 5.6 points higher than the overall LATAM average and 12.7 points higher than the worldwide average. Most Colombian companies (75%) have a comprehensive commitment towards corruption prevention. This high commitment level could be linked to the Transnational Corruption Act (TCA), which was enacted in 2016 as part of the Colombian Government's efforts to tackle corruption.

Although having the best performer (Vale, 82/100), Brazilian companies have the lowest score in the region (44.7/100), almost 7 points below Colombian companies and 1.1 points behind the average score in LATAM.

4.- Top performers

A total of 19 companies displayed an advanced performance (over 60/100), of which three companies stood out:

- **Vale** (82/100) - Mining & Metals, Brazil
- **Orbia Advance Corp.** (79/100) - Chemicals, Mexico
- **Aguas Andinas** (76/100) - Waste & Water Utilities, Chile

These companies display high commitments to corruption prevention in which they address their main responsibilities. They are also signatories of the United Nations Global Compact, which includes anti-corruption as one of its ten principles. In particular, Vale is a member of the Extractive Industries Transparency Initiative (EITI), a sector initiative from the mining industry, which mandates an adherence to specific sector standards that include corruption-reduction objectives. On the other hand, Orbia Advance Corp. and Aguas Andinas lack specific targets to support their commitments towards corruption prevention. However, they both make references to recognised standards such as the U.S. Foreign Corrupt Practices Act. In addition, the three companies report that their commitment is supported by senior management and that they involve employees in their anti-corruption oversight. Vale's ownership of commitment is also supported by sector-specific stakeholder involvement through its EITI membership. In addition, while all companies report providing their employees with training programmes on corruption prevention, Aguas Andinas also reports to involve its suppliers in these training sessions. All three top-performers have implemented internal and external measures such as due diligence on joint ventures and external audits, as well as confidential reporting systems, which cover all significant parts of their companies. It is worth highlighting that Orbia Advance Corp.'s corruption-prevention measures also cover its sales agents and business partners. Moreover, all companies appear to report transparently on internal corruption incidents. While Vale and Aguas Andinas report that no internal incidents of corruption have been recorded, Orbia Advance Corp. discloses transparently the number of cases related to corruption and how these are handled.

5.- Controversies

Companies in the LATAM universe face a total of 34 controversies related to corruption, affecting 21% of all the companies. Of the companies involved in controversies related to corruption, 7% are involved in critical severity cases, 69% in high severity cases, and 24% in significant severity cases.

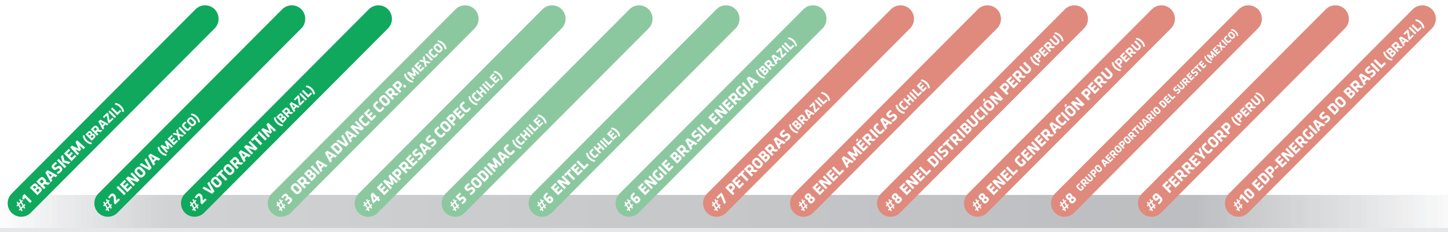
84% of the controversies were related to bribery (36%), corruption (25%), or fraud (23%) In addition, most controversies were concentrated in Brazil (20) followed by Mexico (7), Chile (4), Peru (2) and Colombia (1).

Petrobras and Braskem are the two Brazilian companies involved in the most critical controversies related to corruption. Both companies are involved in the large-scale 'Car Wash' corruption case concerning bribery, fraud, illegal financing of political parties, money laundering, and accounting malpractice. Petrobras responded reactively to the case and reached a USD 853.2 million settlement with the U.S. Justice Department. Braskem responded in a remediative manner to the case by voluntarily taking specific corrective action and paying USD 101 million to settle the case with Brazilian authorities.

BUSINESS BEHAVIOUR Prevention of Anti-competitive Practices

Average Scores:

Chile	Peru	Brazil	Mexico	Colombia	LATAM
39	36	34	32	27	34



SCORE: **ADVANCED:** 60 TO 100 POINTS | **ROBUST:** 50 TO 59 POINTS | **LIMITED:** 30 TO 49 POINTS | **WEAK:** 0 TO 29 POINTS

1.- Overview

Companies are evaluated on the extent to which they consider competition laws and the prevention of market distortion rules in relations with customers, suppliers and competitors. Companies should refrain from anti-competitive practices, including agreements to fix prices, make rigged bids, share or divide markets, establish output restrictions or quotas, industrial espionage and abuse of dominant market position. Actions taken to prevent unfair competition, including dumping and violation of industrial property, are also assessed.

2.- Global performance of LATAM companies

Companies in Latin America obtain an average limited score of 33.9/100. This performance is above the average score of companies worldwide (30.8/100). Additionally, the average percentage of information disclosed by these companies is 72.4%, which is 3.6 percentage points above the worldwide average (68.8%).

71% of companies analysed formally commit to prevent anti-competitive practices, yet only one company has set quantitative targets to support its commitment. 25% of the companies appear to make general commitments towards the issue, 24% address part of their responsibilities, and only 22% of the companies commit to address their main responsibilities such as the prevention of price fixing, market sharing, collusion tenders, etc. In addition, only five companies refer to international standards, such as EU legislation or World Trade Organisation rules. Only 46% of the companies report that their commitment is supported by senior management, and only 24% report involving employees in the oversight of their commitment to prevent anti-competitive practices.

Regarding efforts to promote company cultures that are free from anti-competitive practices, only 20% of companies report instituting relevant awareness raising programmes, and 16% of companies report providing training on the issue. Very few companies (5%) report to have set up a system to ensure that relevant employees, such as managers or sales staff, are made personally responsible for preventing anti-competitive practices. 59% of companies do not appear to report on specific training programmes or awareness raising measures that involve relevant employees on the prevention of anti-competitive practices.

Concerning measures to prevent anti-competitive practices, such as approval procedures for contract prices or confidential hotlines, 34% of the companies analysed do not appear to implement any measures in this regard. Nonetheless, 46% of the companies report to have reporting systems to prevent anti-competitive practices and some companies (18%) also report having internal controls. Only 2% appear to have internal and external controls in place, as well as a reporting system to prevent unethical business behaviour linked to anti-competitive practices. More than half of the companies (51%) report that the measures adopted cover all significant parts of their operations, but very few also cover sales agents (10%) and business partners (3%). Overall, companies in the LATAM region achieve a weak score (20.8/100) concerning the measures to support their commitment.

Most companies (89%) do not appear to disclose any quantitative data on the number or nature of antitrust incidents reported internally. Only 4% of the companies report on anti-trust incidents and how they were handled, while one company disclosed that no relevant incidents were recorded internally.

3.- Noteworthy trends

Although limited, Chilean companies have the highest average score (38.8/100), which is almost 5 points higher than the regional average (33.9/100), 8 points higher than the worldwide average, and display the highest information disclosure rate (89.9%). In particular, Chilean companies appear to display the strongest level of commitment towards the prevention of anti-competitive practices with an average score of 48.5/100, which is almost 10 points above the regional average. While

Chile entered the OECD, the country has aligned its competition law with international best practices, regulations, and with the specific recommendations of the OECD. The 2003 and 2009 reforms particularly strengthened the enforcement institutions including the Chilean National Economic Prosecutor's office (FNE), by granting extensive investigation powers and increase the penalties on companies that infringe free competition rules[4]. This could help explain Chilean companies' performance on the prevention of anti-competitive practices in comparison to other companies in the region.

On the other hand, although Colombia also has introduced reforms to its competition policy such as the Law 1474 of 2011, which established bid rigging in public procurement proceedings as a criminal offense, which carries fines, imprisonment, and disqualification from future public procurements[5], Colombian companies have the lowest information disclosure rate (56.1%), and achieve the lowest score in the region (26.6/100), which is 12.2 points below Chilean companies.

4.- Top performers

A total of 3 companies displayed an advanced performance (over 60/100):

- **Braskem** (66/100) - Chemicals, Brazil
- **IEnova** (63/100) – Electric & Gas Utilities, Mexico
- **Votorantim** (63/100) – Mining & Metals, Brazil

All top performers display a comprehensive commitment towards the prevention of anti-competitive practices and have identified all their responsibilities in this regard, although none has set specific targets nor made reference to relevant international standards. Braskem and Votorantim involve employees in the oversight of the commitment through specific departments or committees. Additionally, all three companies appear to promote a culture that is compliant with competition law and ethical business practices by instituting a system that ensures employees are held personally responsible for preventing anti-competitive practices by requiring employees to sign statements of compliance. In addition, these companies also provide relevant training and awareness raising programmes.

Regarding the means allocated, Braskem stands out by disclosing a reporting system as well as internal controls including internal audits that verify compliance with the company's code of conduct. These measures reportedly cover all significant parts of Braskem's operations including sales agents, which also contribute to its advanced performance. Both IEnova and Votorantim disclose having a reporting system to prevent anti-competitive practices. Whereas IEnova reports that it covers significant parts of its company, it is unclear whether the same applies for Votorantim. Moreover, while IEnova and Votorantim report that no internal anti-trust incidents have been recorded, Braskem does not disclose clear information on the number or nature of related incidents.

Overall, although all three companies are top performers, we must note that none appear to have consistent scores across the leadership, implementation and results sections, therefore, there is room for improvement in the companies' reporting on the prevention of anti-competitive practices. While Braskem performs well in terms of leadership and implementation, it fails to report on results; Votorantim performs quite well in the leadership and results section but has a limited score in implementation; and IEnova has consistent scores in the leadership and implementation sections and achieves its best performance in the results section.

5.- Controversies

Of the total companies in the Latin American universe, 12% faced a total of 19 controversies related to anti-competitive practices: 32% in cases of high severity, 57% of the companies are involved in cases of significant severity, 11% in minor severity cases. None is involved in critical severity cases.

50% of these accusations were directly related to anti-competitive practices, 45% were related to price fixing, and 5% to market sharing. While these allegations are concentrated in majority in Brazilian companies (7), Chilean companies face the highest number (4) of cases of high severity.

For instance, a noteworthy case of high severity was faced by the Chilean company LATAM Airlines, which was fined in 2010, alongside 10 other air cargo carriers, by the European Commission over involvement in a price fixing cartel. It was alleged that there were cartel arrangements between numerous airlines to fix the level of fuel and security surcharges[6]. In 2017, the European Commission re-adopted the cartel decision against the 11 air cargo carriers, and imposed an individual fine to LATAM Airlines totalling EUR 8,220,000[7]. The company appears to be non-communicative in the face of the allegation.

4 OECD (2010) – Chile - Accession Report on Competition Law and Policy

5 OECD (2016) – Colombia: Assessment of Competition Law and Policy

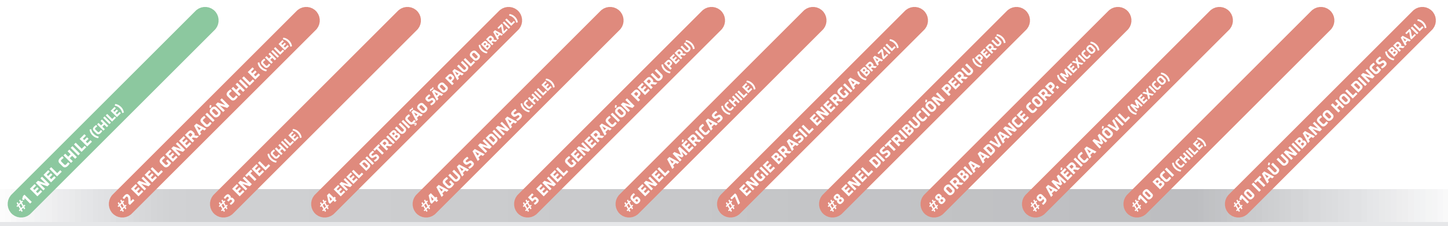
6 European Commission Website – accessed 09 September 2019 - https://europa.eu/rapid/press-release_IP-17-661_en.htm

7 European Commission Website – accessed 09 September 2019 - https://europa.eu/rapid/press-release_IP-17-661_en.htm

BUSINESS BEHAVIOUR
Transparency and Integrity of Influence Strategies and Practices

Average Scores:

Chile	Peru	Brazil	Colombia	Mexico	**LATAM**
22	17	15	15	14	16



SCORE: **ADVANCED:** 60 TO 100 POINTS | **ROBUST:** 50 TO 59 POINTS | **LIMITED:** 30 TO 49 POINTS | **WEAK:** 0 TO 29 POINTS

Ensuring transparent and fair lobbying practices is recognized as an important aspect of good governance, considering that governments and public administrations are often the main clients of certain sectors, and that policy-making decisions may affect society and the environment. Issues analysed include identifying whether company lobbying policies and activities undermine internationally recognized principles of Corporate Social Responsibility. Regarding transparency, companies are analysed on public disclosure of activities associated with public authorities, the intent of their lobbying activities and lobbying expenditures. Companies are also analysed on personal integrity and professional competence when performing lobbying activities, and on the accuracy of information provided to public officials.

Latin American companies display a weak performance (16.4/100) in terms of transparency and integrity of influence strategies and practices, which stands almost three points below the worldwide average (19.3/100). In addition, they have an average information disclosure rate of just 23.9%. This may represent a negative proxy of the overall transparency of Latin American companies in their relationships with governments. On a more positive note, none of the companies appears to be involved in major lobbying-related controversies. Nonetheless, the weak overall performance leads to a low level of assurance on Latin American companies' commitments and capacity to manage the risks and opportunities associated with transparent lobbying practices.

Enel Chile, a company from the electric and gas utilities sector, is the panel's best performer and is the only company to achieve a robust performance (57/100) on responsible lobbying. Enel Chile has a Protocol of Action with Public Officials whereby it commits to ensure the transparency and integrity of its lobbying practices, and reports having some measures in place to address the issue, such as publishing detailed information on lobbying activities, and an approval procedure for gifts, travel or other privileges which is overseen by an independent department.

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CORPORATE GOVERNANCE

2020 Annual Study

Performance of Latin American Companies

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