Corporate Transparency

MILA 2012

Executive Summary

THE IdN TEAM

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PRESENTATION

In September 2011, the "Corporate Transparency: Current Scenario Requirements" was conducted in Chile, during which IdN Inteligencia de Negocios (Business Intelligence) presented the results of the "2011 Report on Corporate Transparency in Chile", and KPMG in Chile presented its study on "Fraud and Corruption in the Private Sector."

This initiative was the first step towards a long-term strategic alliance between IdN Inteligencia de Negocios (Business Intelligence), KPMG in Chile and Transparency International [through its Chilean Chapter] with the purpose of fostering transparency in the private sector in Latin American countries and increasing the valuation of transparency as a social value which benefits the whole society and, in the case of corporate transparency aimed at stock issuers, benefits directly pensions funds and in turn the employees who contribute to these funds.

The method selected for this purpose involves steps which drive virtuous circles aimed at developing a culture of corporate transparency.

This initiative is expressed by measuring corporate transparency for MILA market members and disseminating this in each one of them, as well as by highlighting the benefits of this culture. More markets and steps will be added to this measurement in the future.

By means of this initiative, we hope to highlight the importance of transparency as a social value in the private sector and in this way help to make more institutions in Latin America aware of the benefits of implementing a corporate transparency policy with standards similar to those which can be found in more developed markets.

IdN Inteligencia de Negocios (Business Intelligence)
KPMG
Transparency International

1. The MILA

The Colombia Stock Exchange (BC Colombia), the Lima Stock Exchange in Peru (BC Lima) and the Santiago Stock Exchange in Chile (BC Santiago), together with the respective securities depositories in each country [CSD, Deceval and Cavali], have commenced a process for integrating their equity securities market. This project aims to diversify, extend and make the process of negotiating these types of assets in the three countries more attractive, not only among local investors but also among foreign investors.

This Project is referred to as the Mercado Integrado Latinoamericano [MILA] (Integrated Latin American Market) and aims to develop capital markets through market integration in order to provide investors with an increased security supply and issuers with increased sources of financing.

The process started on June 21, 2010, with a meeting between the regulators in the three countries, the SFC from Colombia, the SVS from Chile and the Conasev from Peru. After three rapprochement visits by the stakeholders (in Santiago (Chile), Lima (Peru) and Bogota (Colombia)), MILA was launched on November 9, 2011. On June 22, 2010, operational testing of this initiative started. At the end of April 2011, the preparation, start-up and production stages commenced, which provided MILA with its official kick off on May 30, 2011.

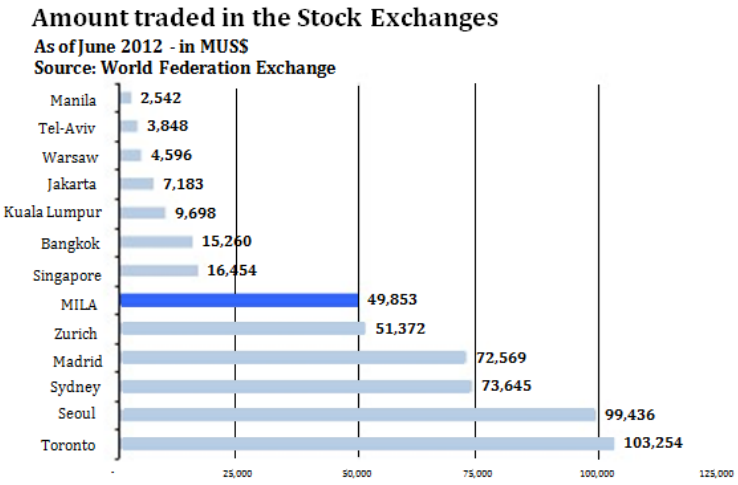
This initiative's potential is not marginal. Once MILA is fully operational, it will be the market with the largest number of issuers in the Region (564 vs. 406 in Mexico (Bolsa de Mexico) and 386 in Brazil), the second in terms of stock capitalization size [after Brazil] and the third in terms of negotiation volume [after Brazil and Mexico].

Table 1
Stock Exchanges in Latin America
Inputs selected as of June 2012

	Listed Companies [No.]	Market Capitalization [MUSD]	Mount Traded [MUSD]
BM&F BOVESPA	372	1,135,006	468,129
Bolsa de México	133	453,316	60,009
MILA	**861**	**616,661**	**49,853**
BC Santiago	515	294,768	24,503
BC Colombia	85	231,906	23,221
BC Lima	261	89,987	2,129
BC Buenos Aires	104	31,174	1,286

Source: World Federation of Exchanges

Indeed, MILA has an aggregate traded amount which is at the same level of the amounts traded in shares in Zurich, exceeding that traded in Singapore, Bangkok, Kuala Lumpur, Jakarta, among others. With the incorporation of new stakeholders into MILA, such as Bolsa de Mexico (the Mexican Stock Exchange), MILA could compete with markets as important as those located in Seoul and Toronto, even exceeding Madrid and Sydney.



There is no doubt that MILA should bring benefits for the stakeholders linked to this stock market. For the investors it would bring "increased alternatives in financial instruments, increased possibilities for diversification, better risk-return balance, increased possibilities for creating new portfolios for distribution to local clients." For issuers it would allow "access to new markets, extending demand for their financing by capturing the interest of an increased number of investors and capital cost reductions for companies." And for brokers, it would foster "the integration of more attractive and competitive stock exchanges, increase the range of products for distribution to its clients and allow creating new investment vehicles, strengthening technology and adopting international standards."[1]

With respect to the last point, this report is indeed an effective tool for determining the progress made in adopting international standards on corporate transparency.

[1] www.mercadointegrado.com

2. THEORETICAL FRAMEWORK

Investors' interest is to optimize profits but with the lowest risk rate possible. One of the ways of lowering the risk is by diversifying investments in different instruments and over different terms. In this way, rational investors will have speculative shares, defensive shares, U.S. dollars, euros, yuans, reais, Chilean pesos, Swiss francs, and others, in their investment portfolio, in addition to term deposits, investment property, mutual funds and private equities, among others.

However, to lower the risk it is not enough to diversify the investments. It is also important to have reliable information, which is of high quality, on the instruments such as the economy and market conditions.

It is therefore important to examine the quality of the information which the investors have, in particular, information relating to the companies which issue both debt and equity securities (shares). In this way, the investors are interested in finding out if the accounting information has been audited or not and what the auditor's opinion is. They are interested in finding out how corporate governance works, the level of professionalism and what certainty it gives all its shareholders with respect to sustainability of the company's value.

This study is based on the corporate information which determines the changing value of a company in the long-term. On the one hand, it determines the amount and sophistication of the content supporting the value of a company. On the other hand, it determines the credibility and updates made to the information which help to reduce uncertainty regarding the value expected from this company.

2.1 Corporate Value

From the point of view of the theory of value and, in particular, the total economic value [TEV], developed at first by Alan Randall in 1987[2] and later by many other authors[3], goods [or assets] are not valued by their price [the exchange value], but rather the total of all of their value components, in other words, their total economic value, which includes:

- the direct use value,
- the indirect use value,
- the option value,
- the bequest value, and
- the existence value[4].

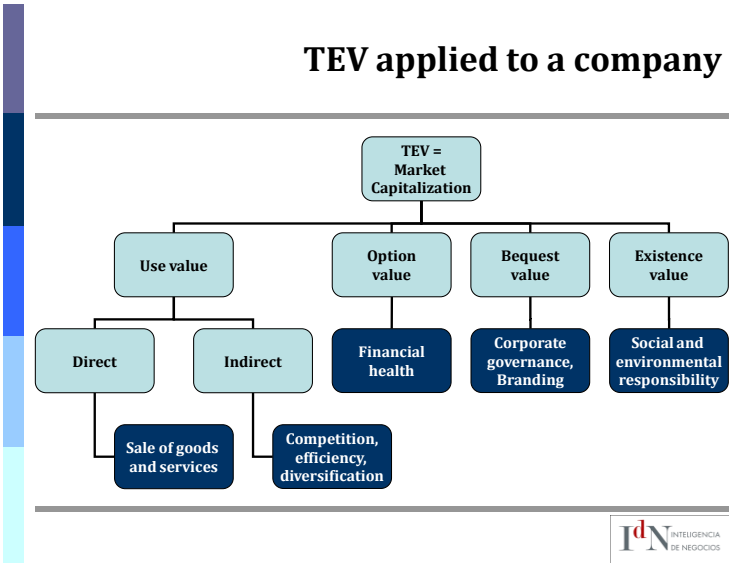
This way of thinking is shown in the diagram "Total Economic Value applied to a company".

[2] Randall, Alan [1987]. "Total Economic Value as a Basis for Policy". Department of Agricultural Economics and Rural Sociology. The Ohio State University, Columbus, Ohio 43210, USA.

[3] Krutilla, J.V., Randall, J., Bishop, R.C., Peterson, G.L., among others.

[4] For further information, please see the 2010 Corporate Transparency Report.

Bearing this in mind, a company obtains its direct use value from transparent business with good management and strategic plans, and products and services which are valued by society, and its own competitive advantages. However, its only market share [supply market, service market and consumer market] is valued because it provides competition and employment, brings about economic efficiency and is an alternative to risk diversification. Likewise, the financial health of a company enables it to continue over time, which, along with its innovative capacity, generates its option value.



Good corporate governance helps a company to generate value over time through professional administration and business ethics, generating its bequest value [sustainability]. At the same time, social and environmental responsibility actions generate existence value in a company because, although the majority of society can never buy shares or work in this company, its contribution to society and its stakeholders are valued.

2.2 Corporate Risk

From the point of view of an investor, it is always preferable to invest in companies which contribute to the process of lowering risks. For this reason, factors such as having access to large quantities of reliable and up-to-date information about the company, increase the trust which investors have and transmit the message of low risk.

The market assumes that a company whose risk rating is AAA will have the lowest risk rate [almost zero], so the expected interest rate [or yield] of that company's share or bond will be lower since the majority of its value is not based on its profitability but rather its security.

However, at present, risk raters do not take into account a number of factors when making their estimates. For instance, they do not consider the quality of corporate governance as a source of value for the company and a factor that tends to reduce risk, which is particularly sensitive when comparing ratings of

companies in different countries, which have legislation and governing organizations with different approaches and different powers in terms of inspection.

Although the market can generate appropriate hedging instruments, such as credit default swaps [which are risk rates observed in the market on a daily basis] this does not mean that there is a correct idea of the risk rate assumed by investing in a company.

For this reason, the target indicator of corporate transparency could be considered as part of an evaluation model of risk rating as it provides new information on the risk associated with a company's value estimates.

3. The Meta Index

3.1 Corporate Transparency

The measuring model of corporate transparency aims to establish the amount of relevant information that a company makes available to its stakeholders.

A methodology of information search was used type "scanning", reviewing the presence or absence of relevant news content, that is contributing to a better and more reliable estimate of the value of a company.

The establishment of these information components was made through a comprehensive literature review on recommendation and guidelines of corporate governance, transparency of information and reporting obligations that they apply both bags and international regulators. This exercise was rescued five [5] informational topics, more a [1] facilitating the information component.

Each group of variables was weighted differently according to the degree of importance in the management of the company. To learn about the operational mechanics of the model, please read the methodological annex to the ITC 2010. The detail can be seen in table 3.1.

Table 3.1: Corporate Transparency Model

Drivers	Weights	Attributes	N° of Content	Examples
Presentation and business	10%	Description of the business carried out by the company, historical background, strengths, trade coverage, etc.	10	Corporate history, Mission, vision, values, Group companies, Other countries
Corporate Governance	25%	Detailed description of the organization and its form of governance.	29	Social status Composition of Share Capital Corporate Structure (shareholders) Organization of the company Payment to the Board
Services and Information for investors	20%	Information that an investor may wish to know. It may range from basic facts to strategic plans, dividends, the stock market quote, etc.	22	Essential events Presentations Calendar of events Dividend policy Frequently asked questions
Financial information	30%	Accounting standards, delivery formats, monitoring and periodic delivery of information.	14	Audited annual report Quarterly Financial Statements Financial Ratios
Sustainability	10%	Description of and information on business sustainability policies and relationships with stakeholders.	25	Strategy and policies Health and safety issues Waste materials Energy savings Sustainability memory
Digital Tools	5%	Tools which facilitate the search for and understanding of information.	10	Contact us Other languages Facebook Twitter

Source: IdN

3.2 Content Sophistication

En la versión 2011 de este reporte se consideraron más de 85 tipos de contenido para confeccionar el Índice de Transparencia Corporativa. En esta segunda versión la consideración alcanzó las 110 variables. Pero esto no significa solo un aumento en el número de ítem considerados, si no que –además- se estableció la existencia de un nivel de complejidad creciente en la elaboración de los contenidos.

Lo anterior justifica una consideración sobre la complejidad de contenidos que son progresivamente más difíciles de generar. En esta versión, todos los contenidos se han ponderado de igual manera. En el futuro, se espera poder diferenciarlos por su grado de dificultad y relevancia.

3.3 Corporate Credibility

The estimation of the degree of credibility of information transparentized by a company is built on the basis of two criteria: relevance and reliability.

The relevance says relationship with the process of construction of a company's value, while reliability is related to the sustainability of that value over time.

In terms of the credibility, the fact that the information is signed by someone [the President of the company, for example] contributes to the seriousness and responsibility of information provided. Moreover, if it is peer-reviewed, audited or certified by signatures validated by the market or by the regulator.

In this regard, it should be noted that the audited information is considered as more reliable, which does not give absolute certainty of truthfulness, therefore, it is never possible to be 100% sure that the information displayed is absolutely reliable, longer than anyone with intention to defraud, always find paths to do so.

The criteria applied to the model of estimation of the index of corporate credibility, are shown in table 3.3.

Tabla 3.3: Corporate Credibility Model

RELEVANCE	INFORMATION	CLASIFICATION
LOW	Narrated	A
MEDIUM		A
HIGH		A
LOW	Signed	A
MEDIUM		B
HIGH		B
LOW	Audit	B
MEDIUM		C
HIGH	Audit	C

Source: IdN

For example, among the several types of financial statements, situation – to be interim - States have less credibility than a balance sheet. Also, audited

financial statements generate greater credibility than those who are not. In this sense, information components classified with the letter "C" have a greater degree of credibility than those with the letters "A" and "B".

3.4 Information Update

The measurement was carried out in June 2012, month in which already all companies should have delivered their annual financial results for the previous year, their annual reports and even had already have taken place the meetings of shareholders. In this way, December was considered as the last month of delivery of relevant information in the case of the annual information and harness of 2012 in the case of quarterly information.

The degree of obsoleteness of information was measured in terms of quarterly, considering the number of periods of lag that found the information present on the corporate web site.

For the annual contents, was considered a year earlier as updated, i.e. the degree of obsoleteness was null [0]. Instead the contained quarters was the first quarter of the year 2012 as the last relevant. Examples: If only found the annual report for the year 2010 has been marked as "- 4", i.e., with four quarters of downgrades, while if it was only the quarterly report for the third quarter of 2011 is marked as "- 2", i.e., two quarters of downgrades.

As a working assumption was that information with 16 quarters of gap is equivalent to that the information is not present in the corporate site. From this, a linear scale of punishment to the outdated information was structured, such that, the punishment for the updated information is 0%, while for the 16 quarters of gap information punishment is 100%. For more details, see methodological annex.

4. Results for 2012

First of all, however, we should indicate that the companies in this report, which have been assessed in areas relating to corporate transparency, fully comply with the Law and regulations currently in force in each of their countries and, as a result, the desire for increased transparency are within the sphere of willingness, aspiration and not in respect to legal or compulsory aspects.

As a result, and in accordance with MILA desire to achieve international standards, the measurement of Corporate Transparency in the main issuers of equity securities in the three markets, tests these against a group of big global companies, all of which trade in markets which are apparently more demanding than those in MILA member countries.

Some of the companies considered for the benchmark were BHP BILLITON, NOVARTIS, INDITEX, ALSTOM, BMW, PIRELLI, MITSIBISHI, ACER, FEDEX and PEPSICO[5]. A total of 40 companies headquartered in different advanced economies were considered, which were used as paradigm for international best practices in corporate transparency.

In the case study, most of the big stock exchange companies have Corporate Governance Good Practice Guidelines, which explicitly recommend that companies use the Corporate website and, in particular, the section relating to relationships with investors, as the main point through which they should communicate with their stockholders and stakeholders. Colombia and Peru have Corporate Governance Good Practice Guidelines. Chile, however, does not have any.

The recommendation on transparency and dissemination of the information is based on the need to make the corporate information conditions the same for all its stockholders and, as such, the corporate website would be the channel through which the majority and minority stockholders have access in fair and timely manner to the company's relevant information.

4.1 Corporate Transparency

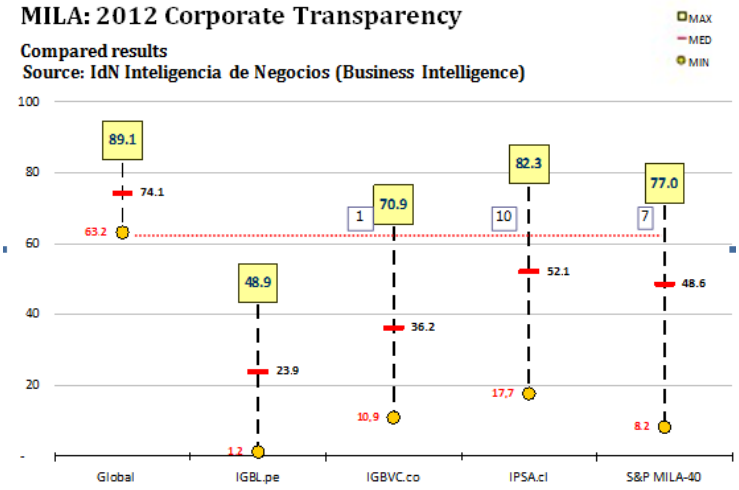
The Corporate Transparency minimum level found in the global benchmark was 63.2 points with a maximum of 89.1 points, for 110 elements of corporate content requested. This means that, in broad terms, at least 70 information topics should be in place to achieve the international standard.

In the case of markets being examined, all are, on average, below the international standard found.

Four observations can be made from the graph, which summarizes these results [MILA: 2012 Corporate Transparency]. The first is that the dispersion found in local markets is significantly greater than the international standard, whereas in the global standard the difference between the highest and lowest amount found is 25.9 points, in companies in the Colombian market, 58.8 points, in the Chilean index, 64.4 points, and in Peruvian companies, 47.7 points.

[5] See the accompanying attachment

The second is that the average level of corporate transparency is also significantly lower in local markets. While the average Global Transparency Index is 74.1 points, the Colombian index is 34.5 points [46.6% of the global average], the Chilean index is 52.1 points [70.2% of the average global] and the Peruvian index is 23.9 points [32% of the global average].



The third observation is that the Chilean market would show a higher level of corporate transparency followed by the Colombian market and the Peruvian market is the lowest in this area.

Lastly, the fourth observation is that the number of companies in each market which exceed the international standard is variable. While in Peru no companies achieve this, one company in Colombia and ten in Chile achieve this. In the combined index six Chilean companies and one Colombian company achieve the standard.

In addition, the average of the group of companies from the three countries which are part of the S&P MILA40 index is 48.6 points. This level is higher by 13% to that obtained from weighing the IPSA, IGBVC and IGBL indexes by the rate of companies which make a contribution to the S&P MILA 40. This is due to the fact that the index includes 55% of Chilean companies, which offer an important portion of the corporate best practices in Chile.

4.2 Corporate Credibility

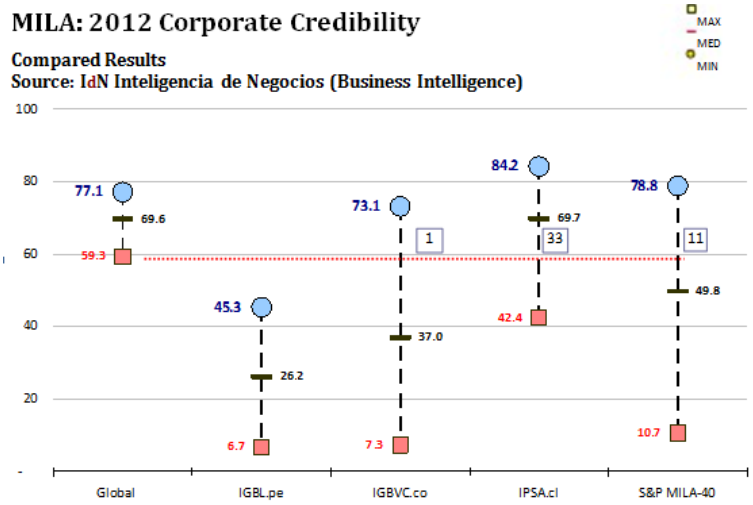
In terms of credibility, the minimum level found was 59.3 points and the maximum level was 77.1 points, for 110 corporate content elements requested. This means that, in broad terms, at least, 66 informative topics should be in place to achieve the international standard.

In the case of markets being studied, on average, all of them are below the international standard found.

Four observations can be made from the graph which summarizes the results [MILA: 2012 Corporate Credibility].

The first is that the dispersion found in local markets is significantly greater than the international standard, whereas in the global standard the difference between the highest and lowest amount found is 17.8 points, in companies in the Colombian market it is 65.8 points, in the Chilean index it is 41.9 points and in the Peruvian companies it is 38.7 points.

The second is that the average level of corporate credibility is also significantly lower in local markets. While the average Global Transparency Index is 69.6 points, the Peruvian index is 24.9 points [35.8% of the global average], the Colombian index is 33.9 points [48.7% of the global average] and the Chilean index is 69.7 points [100.2% of the global average]. The latter means that the Chilean IPSA index offers a degree of credibility of the transparent information which is equivalent to that found in global markets but with a lower level of information delivery.



The third observation is that the Chilean market would disclose a higher level of credibility at local level followed by the Colombian market, and the Peruvian market would be the last in this area.

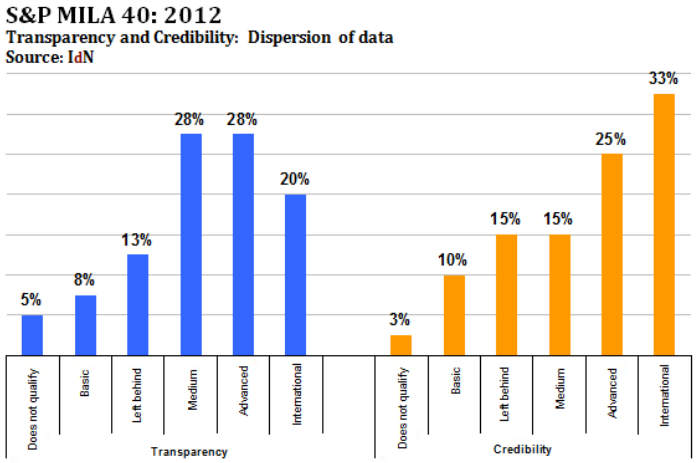
The fourth observation is that the number of companies in each market which exceed the international standard is variable. While in Peru no companies achieve this, there is one in Colombia and thirty-three in Chile which do. In the combined index ten Chilean companies and one Colombian company achieve the global standard.

In addition, the average of the group of companies from the three countries which are part of the S&P MILA40 index is 49.8 points. This level is lower by 7.1% to that obtained from weighing the IPSA, IGBVC and IGBL indexes by the rate of companies which make a contribution to the S&P MILA 40. This is due to the fact that the index includes 55% of Chilean companies but they do not include the entire group of companies with the best practices in corporate credibility in Chile.

4.3 Dispersion of Data

As the average level of companies which belong to S&P MILA 40, is 48.6 points for transparency and 49.8 points for credibility, observing the distribution of the scores of those companies is convenient to note the difficulty involved in achieving the international standard.

As noted in graph "S&P MILA 40: 2012 Transparency and Credibility: Dispersion of data" none of the two behaves normally.[6]



As for Corporate Transparency, the three lower levels account for 26% of the sample, whereas the upper levels make up 48% of data. The central part comprises 28% of data. This implies that at least 28% of the companies which are a part of the S&P MILA 40 could improve their corporate transparency levels and achieve the international standard.

As for Corporate Credibility, the three lower levels account for 28% of the sample, whereas the upper levels make up 58% of data. The central part comprises only 15% of data. This implies that at least 25% of the companies that are a part of the S&P MILA 40 could in the short-term improve their corporate credibility levels and achieve the international standard.

As a result, it is possible to feel optimistic about the results of this group of companies in the short-term, but such improvements depend more on the companies than on regulators and stock exchanges.

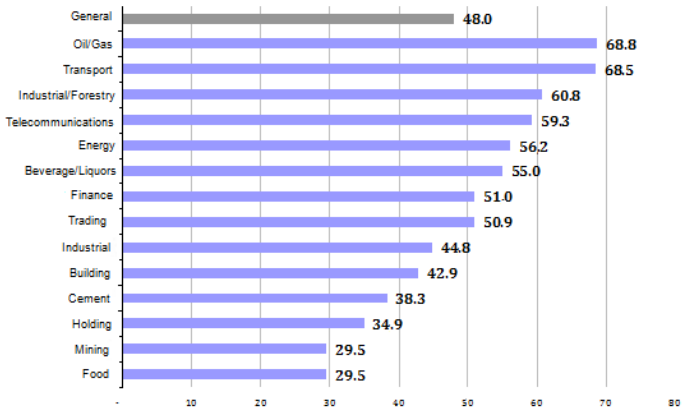
4.4 Sectors

From a sectorial point of view, MILA companies which present the highest Corporate Transparency level are those in the Oil & Gas sector [average of 68.8 points] followed by Transport [average of 68.5] In addition, the global standard is achieved by the Industrial/Forestry sectors [average of 60.8 points] and Telecommunications [average of 59.3 points]. The remaining

[6] Bell curve.

sectors are distributed between 57 and 34 points, except for Mining and Food, both with an average of 29.5 points.

S&P MILA40: 2012 Transparency by Sector
Source: IdN Inteligencia de Negocios (Business Intelligence)



4.5 Information Update

In general, we note that adjusted transparency indicators; i.e., the index obtained by each issuer which belongs to the S&P MILA 40 sanctioned by the degree of out-of-date information provided, presented a very good adjustment, almost no deviations are noted so that the minimum indicator is 95.2 points, the average is 99.4 points and the maximum is 100 points. Dispersion is very low.

S&P MILA-40: Update vs. Transparency
Source: IdN

As noted in the graph "Update and Transparency: 2012 MILA", the majority of points [which represent the 40 companies considered for this analysis] are located above the 45° line, which symbols the equality in the transparency index with respect to credibility.

This means that companies which are a part of this index keep – on the whole- all of their stockholders [controlling and non-controlling stockholders] informed in a timely and similar manner. Although this does not mean they disclose all the information required.

5. CONCLUSIONS AND CHALLENGES

The first conclusion which can be drawn from this study is that MILA is yet to fulfill the promise of implementing better standards among their issuers, at least, with respect to Corporate Transparency.

In particular, there are many opportunities for making progress in the area of Corporate Transparency and Credibility.

Although Chilean companies have recorded better positioning, this does not exempt them from the challenge given that the gap observed, in particular, in terms of transparency, remains considerable.

Peru seems to be the country with the highest level of underdevelopment given that no issuer achieved more than the minimum required by the international standard. Therefore, in the case of Peru, the challenge is double: improving the average indicator and starting to position its best companies within the international standard.

In Colombia, only one company achieved the global standard, Ecopetrol, which concentrates 27% of the stock exchange index in Colombia. The challenge could also be double, improving the average index in 2013 and helping Pacific Rubiales [which represents 23.3% of IGBC, the second most traded company in the market] to achieve this too.

For Chile, as it has three measurements for this index, the current challenge is making the average index exceed the international minimum. This means an increase of 7.2 points (13%) but also means making the eleven companies that achieved more than 50 points in the ITC progress in 2012 above 63 points.

Some other features observed in each specific market report are that both Chile and Peru still have issuers which do not have an informative website for minority stockholders. In addition, although they are not part of the group of most traded companies in MILA, as a minimum standard, there should be progress in this sense.

In addition, Chilean issuers have a favourite bias to corporate information credibility, which is not perceived in the Peruvian and Colombian markets. As a result, there will be other significant challenges in these countries to promote the delivery of corporate information with an increased degree of commitment by companies.

For the topics which determine the Corporate Transparency Index, it is important to note that there are certain significant failures for instance, in the area of corporate governance there are just a few committees, the absence of a corporate governance model, the absence of a report containing information on contributions to political campaigns [a topic with ever-increasing strength in our region].

As for services for stockholders, there should be greater use of digital tools, such as dynamic subscription systems, chat, webcast and alert systems.

With regard to corporate responsibility, we noted many gaps in areas such as the policy for managing human resources, diversity, use of energy, savings, waste management, independent measurements, among others.

One of the most significant conclusions of this study carried out by IdN Inteligencia de Negocios (Business Intelligence), KPMG and Transparency International is that to achieve pervasive improvements in corporate transparency, an addition of joint efforts should be in place involving, the stockholders, board of directors and senior management, on the one hand; and the regulators, institutional investors and minority stockholders, on the other hand.

From the public policy standpoint, it is possible to suggest two lines of action to MILA which acts as the integration agency. The first line of action is to streamline corporate transparency requirements for issuers involved in this initiative. And the second is implementing incentives for issuers to move their efforts in transparency to the standards offered by more sophisticated markets.

Indeed, MILA could transform into a great opportunity so that, in order to improve corporate transparency standards in the three countries, a new recommendation guidance is promoted both for corporate governance with an emphasis in respect for minority stockholders and corporate transparency.

Finally, it is obvious that the only way for the stock markets in Colombia, Chile and Peru to stop being perceived as speculative markets and be considered as emerging markets for medium and long-term investments is streamlining standards in these markets with those perceived in the most important stock markets worldwide; e.g., New York, London and Frankfurt.

S&P RATING FOR MILA 40

2012 Corporate Transparency

RK.12	COUNTRY	COMPANY	SECTOR	ITC.12	ICC.12	IAC.12
1	cl	Banco Santander	Financial	**77.0**	72.5	99.1
2	cl	BCI	Financial	**76.0**	78.8	100.0
3	cl	ENDESA	Energy	**72.2**	68.7	100.0
4	cl	Enersis	Energy	**71.7**	65.8	100.0
5	co	Ecopetrol	Oil/Gas	**70.9**	73.1	97.7
6	cl	Banco de Chile	Financial	**69.7**	67.5	100.0
7	cl	LAN	Transport	**68.5**	65.3	100.0
8	cl	COPEC	Industrial/Forestry	**61.7**	61.4	98.9
9	cl	CMPC	Industrial/Forestry	**59.8**	59.3	98.9
10	cl	ENTEL	Telecomm.	**59.3**	69.3	98.9
11	cl	Concha y Toro	Beverage/Liquors	**58.6**	60.8	100.0
12	co	Interconexión Electrica	Energy	**57.9**	55.9	100.0
13	cl	COLBUN	Energy	**55.4**	54.8	100.0
14	co	Alamacenes Éxito	Trading	**52.1**	63.4	100.0
15	cl	Falabella	Trading	**51.8**	59.5	100.0
16	cl	CCU	Beverage/Liquors	**51.3**	62.4	100.0
17	cl	GENER	Energy	**51.1**	53.1	100.0
18	cl	Cencosud	Trading	**51.1**	55.6	100.0
19	cl	CAP	Industrial	**50.8**	56.2	98.8
20	cl	Antarchile	Holding	**49.2**	50.2	95.2
21	pe	Southern Copper Corp	Mining	**48.9**	45.3	100.0
22	co	Nutresa Group	Food	**48.9**	61.0	100.0
23	cl	CGE	Energy	**48.4**	49.3	98.6
24	cl	CorpBanca	Financial	**47.5**	49.1	100.0
25	pe	Credicorp LTD.	Financial	**45.8**	36.4	100.0
26	co	Inversiones Argos	Holding	**44.6**	36.8	96.5
27	cl	Salfacorp	Building	**42.9**	38.7	100.0
28	co	Bancolombia	Financial	**41.9**	44.0	100.0
29	co	Cementos Argos	Cement	**40.4**	50.8	100.0
30	co	Pacific Rubiales Energy Corporation	Energy	**40.4**	51.7	100.0
31	cl	SQM	Industrial	**38.7**	36.3	98.2
32	pe	Volcan Compañía Minera	Mining	**38.0**	42.7	100.0
33	co	Banco de Bogota	Financial	**37.0**	40.9	97.0
34	co	Corporación Financiera Colombiana	Financial	**36.6**	32.7	100.0
35	co	Grupo de Inversiones Suramericana	Financial	**36.6**	37.8	100.0
36	cl	SM Banco de Chile	Holding	**26.2**	18.1	100.0
37	pe	Compañía de Minas Buenaventura	Mining	**23.0**	18.3	100.0
38	co	Aval Group	Holding	**22.0**	20.3	100.0
39	pe	Alicorp	Food	**12.3**	10.7	100.0
40	pe	Minsur	Mining	**8.2**	15.7	100.0

Source: IdN Inteligencia de Negocios

ATTACHMENTS

Global Companies 2012

The selection criterion for global companies is a comparison between the biggest and most prestigious companies in the world. One hundred companies withdrew from this group, 40 of which were selected. Half of them are changed every year, so 50% of the companies selected (20) remain for two years in accordance with the standard.

Below is a list of the global companies which were used to prepare the international benchmarks.

COMPANIES	
BRADESCO	PIRELLI
GERDAU	HONDA MOTOR
BHP BILLITON	MITSIBISHI
BARRICK GOLD	SUMITOMO
NOVARTIS	LOTTE SHOPPING
UBS	UNILEVER
BBVA	VOLVO GROUP
INDITEX	ACER
TELEFÓNICA	BRITISHTOBACCO
ALSTOM	RIO TINTO
AXAGOUP	VODAFONE
DANONE	FEDEX
L'OREAL	BRISTOL-MYERS SQUIBB
BASF	CHEVRON
BMW	EXXON MOBIL
COMMERZBANK	GOOGLE
LUFTHANSA	JOHNSON & JOHNSON
VOLKSWAGEN	MACY's
TATA MOTORS	PEPSICO
LUXOTTICA GROUP	PROCTER & GAMBLE

Methodology

The first methodological decision adopted was setting the needs for information of all a company's stakeholders on the basis of the standard currently in force in advanced economies and the recommendations from international agencies.

For the study we used a research method based on secondary public sources, which enables converting data available into knowledge. In particular, this consisted of work searching for the presence or absence of information components which help to determine a company's value.

The verification of relevant components was performed through the existing information in websites of a selected group of global[7] companies, which conduct a corporate transparency sustained by international standards and recommendations. From this exercise, more than 80 information attributes were retrieved, which were grouped according to whether contents are suitable or their functionality.

Attributes were grouped into six determinant factors, which are in line with a company's value creation components, namely, (1) presentation of the company and its businesses; (2) corporate governance; (3) financial information; (4) information for the investor; (5) social and environmental responsibility; and (6) miscellaneous [see Table 3.1 for more detail].

Each group of variables was weighted according to the number of information attributes, so that the greater the number of attributes, the greater weighting obtained. These weightings were adjusted according to the relevance of information where, the greater the relevance the greater weighting provided.

Thus, the greatest weighting was assigned to "information for investors" which includes such data as essential events, stock market quote, list of analysts covering the company, the electronic alert service and dividends paid, among others, whereas the lowest weighting was provided to the "tools" where digital functionalities which improve the ease of access to contents are included.

Then, the corporate transparency index (ITC) was defined as:

$$\mathbf{ITC} = \Sigma\, (m_i/n_i)\, \phi_i,$$

Where "m" is the number of attributes found in the *i* factor and "n" is the total attributes in the *i* factor, being ϕ, the *i* factor weighting factor. Weighting factors established for building the ITC were as follows:

- Presentation and businesses (pn): 12%
- Corporate governance (gc): 23%
- Financial information (if): 19%
- Information for investors (ipi): 27%
- RSE and RSA (rs): 11%
- Tools (h): 7%

So that:

$$\mathbf{ITC} = pn10\% + gc25\% + if20\% + ipi30\% + rs10\% + h5\%$$

To establish a ranking, companies were grouped from higher to lower points according to their ITCs.

Investment Diversification Theoretical Framework

The Portfolio Modern Theory (TMP) was developed between the 50s and the 70s. Started by Markowitz and followed by a number of authors, this is a mathematical formula of the investment diversification concept, which proposes selecting a group of assets to invest a portion in each of them because the portfolio has collective risk which is lower than that of an individual asset. Indeed, the diversification decreases the risk in the event that return on assets is not negatively correlated and even if it is positively correlated.

In common language, it can be said that investors do not want to "put all their eggs in one basket".

More technically speaking, the TMP assumes that the expected return on an asset is distributed normally (bell curve), which defines the risk as a standard deviation in the return. Therefore, the TMP proposes the building of an investment portfolio through a combination of different assets whose returns are not positively correlated on a one-hundred basis so that TMP seeks for decreasing the total variation in the return on the portfolio. The TMP assumes that investors are rational and markets are efficient.

[7] See the accompanying attachment

Mathematically expressed:

$$E(R_p) = \Sigma\, w_i\, E(R_i),$$

Where E(R) is the hope of receiving a return, R_p is the return on the investment portfolio, R_i is the return on the "i" asset and w_i is the weighting of the "i" asset; i.e., the percentage (in amount) of the "i" asset in the portfolio.

Given the present information technology conditions and the integration of financial systems, it is customary to note that capitals move almost instantaneously from one country to the other, always in search for the best investment and lower risk.

In line with this, for a company to be considered within a global investment portfolio, this should offer to potential investors relevant information on its activities, operations, statement of financial position, etc. so that it could be indicated that the company which offers the highest level of information, allows the investor better assessing the company's risk/return ratio.

Given this, the company which makes available to the general public all its information on a simple, effective and direct basis has more possibilities of being considered by a greater number of investors or investment funds so that there should be higher demand for its securities. This should result in an increase in the price of shares and increased stock market capitalization, increasing the company's total economic value, thereby resulting in a benefit to all its stockholders.

Theoretical Framework Value Components

A company's valuation (understanding that there is a number of actions which the companies perform that generate added value for the company and which in the long-term translate into increased stock market valuation) may be structured from the Total Economic Value (TEV) theory standpoint.

According to this model, which was developed by Randall in 1987 and was continued and perfected by a long series of authors (see the bibliography), an asset's economic value is built adding its use value, non-use value, option value, bequest value and existence value.

For environmental assets; e.g., an ecosystem, the total economic value is composed of the following:

- use value (direct and indirect) + option value +bequest value + existence value

The analogue link in this model, from an environmental asset to a company can be made looking for assembling value aspects with added-value components in a company. The proposal for this work is as follows:

- The direct use value (the goods and services offered in the market, the competitive factors, risk management, etc.);
- The indirect use value (for its contribution to competency and market efficiency, the diversification of risk and as it provides employment, risk mitigation, among others);
- The option value (it would be desirable being able to acquire the company's shares in the future, respect for the minority investor, stock market information, development plans, dividend policy, etc.);
- The bequest value (thanks to a good corporate governance the possibility of the company persistence throughout time increases, allowing that future generations are also involved in its ownership or being employed by it); and
- The existence value (it is desirable that the company persists throughout time as it is an innovative company, supports the community, performs charity actions, etc.).

However, for a company's TEV to be reflected both in its capitalization and the price of its shares, it is indispensable that it offers a sufficient corporate transparency level so that both the investors and other stakeholders may conduct a right assessment of the value this contributes to the company.

Credibility Model

The estimate of degree of credibility of transparent information provided by a company was developed on the basis of two criteria: information relevance and information reliability.

Relevance relates to a company's process for building value; whereas reliability relates to the sustainability of that value and its sustenance throughout time.

For credibility, the fact that this information is signed by somebody (e.g., the Company's Chairman) adds seriousness and responsibility to the information delivered. In addition, if this is reviewed by third parties and additionally if it is audited or certified by the market or the regulator.

For the latter, please note that the audited information is considered to be more reliable than unaudited information, but that does not mean that it provides absolute certainty as to truthfulness, because as seen in international cases (Enron, Parmalat) and Chilean cases (La Polar) auditors may be deceived.

Therefore, it is never possible to be 100% certain that the information displayed is absolutely true as whoever wants to defraud will always find ways to do it.

The criteria applied to the Corporate Credibility Index estimate model is shown in the Table 3.2 below.

Table 3.2

Corporate Credibility Model		
RELEVANCE	**INFORMATION**	**RATING**
LOW	Narrated	A
MODERATE		B
HIGH		C
LOW	Signed	A
MODERATE		A
HIGH		B
LOW	Reviewed Audited	A
MODERATE		A
HIGH		A

Source: I[d]N

Thus, the indicator was divided into three sub components:

$$IN = \Sigma\ \alpha_i (CI_i),$$

$$IF = \Sigma\ \beta_i (CI_i),$$

$$IA = \Sigma\ \chi_i (CI_i),$$

Where IN is Narrated Information, Signed Information and IA is Audited or Certified Information.

Finally, Corporate Credibility (CC) is equal to the sum of the three sub components.

$$CC = IN+IF+IA$$

Update Model

For this analysis we considered 110 content elements, which were marked according to the number of quarters of delay in information (lag quarters).

For annual periodicity topics lag marks were included every 4 quarters whereas for lags in quarterly information, lag marks were included according to the number of lag quarters.

Quarters were weighted from lower to higher as a sanction system, so that information with no delays receives a zero sanction and information presenting delays of 16 quarters receives a 100% sanction; i.e., in that case the information is not considered to be in place.

As a summary:

$$IAC_i = 100 - \Sigma ID_{i\text{-}n}/IT_i * 100$$

Where IAC_i corresponds to the "i" company's Updated Information Index, which is equal to 100 less the sum of the Out-of-Date Information of "i" companies in "n" periods [$ID_{i\text{-}n}$] divided by the total amount of information submitted by the "i" company [IT_i].

Sophistication Model

For this analysis, 110 content elements were considered, which were grouped according to their topic. In this sense, please note that certain components may belong to more than one rating and therefore, in such cases, were considered on a multiple basis so that the scope of this index would not be decreased.

At each rating, contents were ordered according to their degree of complexity, to observe their degree of preparation.

All contents were weighted equally although in the future differentiating among the different types of contents by their degree of difficulty and relevance is expected.

Accordingly, the degree of sophistication of corporate contents was measured independently for each type of content so that:

$$GSC_i = \Sigma C_i / N_i * 100$$

Where GSC is the degree of sophistication of contents, C_i is the quantity of information in i content and where N_i, is the maximum quantity of information requested from the i content.

For each content type or rating of content work was conducted independently and, therefore, this exercise was repeated for each of them.

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