

Latam Airlines

ISIN CODE: CL00000000423

Overall score 43/100

Sector: Travel & Tourism Emerging Market

Companies in sector panel: 15

Information rate: 82% (Sector average: 56%)
Company cooperation level: Partially responsive *

General information

LATAM Airlines Group SA engages in the provision of passenger air transportation and cargo services. The Company was founded in 1929 and is headquartered in Las Condes, Chile.

Main Economic Segment**	Turnover 2017
Air transportation	80.3 %
Coalition program and loyalty Multiplus	19.7 %

CORPORATE GOVERNANCE			
	2014	2016	2018
Score			34
Allegations			Yes
Rating			+
Risk management			Limited

Key issues

Sound corporate governance is required to oversee a company's strategic direction, including the CSR strategy. Vigeo's framework has been adapted to capture the level of integration of CSR topics at Board-level, supplementing traditional signals on efficient governance practices. Directors are notably evaluated on their level of diversity and experience with operational, financial, and CSR topics (CGV1.1). The audit and internal controls system is examined regarding the efficiency and reach of its risk management (CGV2.1). Shareholders are expected to have fair voting rights and access to all relevant information on material CSR issues (CGV3.1). Executive remuneration is assessed for transparency and alignment with the interests of company's shareholders and other stakeholders (CGV4.1).

Company performance

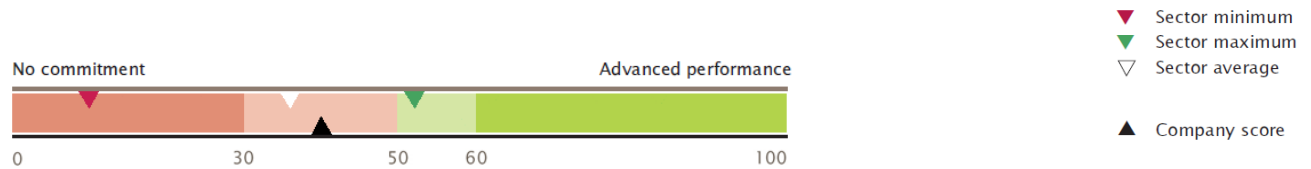
- Latam Airlines' absolute performance in the Corporate Governance is limited, which is stable comparing to the last review.
- The Company still does not appear to have a Nomination Committee, although five of the 9-member Board are independent. The Audit Committee maintains a comprehensive role and internal controls while also including operational safety in its risk management policy, but with no detailed disclosure of the policy itself. The external auditor receives non-audit fees, but these represent less than 5% of the total fees. As for shareholders rights, no safeguards or restrictions seem to be in place, but not all relevant issues are put to vote. Finally, the Company is silent on the rules guiding executive remuneration.
- The Company is facing a controversy of high severity for corruption practices, on which it is responsive and has agreed to settle the case.

Corporate Governance

Score : 34

CGV1.1 Board of Directors

(score: 40, weight: 3)



[LISTED COMPANIES] Existence and independence of Nomination Committee

No specific committee is in charge of director nomination, which might raise concerns.

In line with Chilean corporate legislation, the Board cannot propose candidates to the Board. Therefore, executives are nominated by the Board, and no specific Committee appears to be in charge of nomination.

Independence of the Board Chairman

The roles of Chairman and CEO are separated, but the chairman is not considered independent.

Responsibility allocated over CSR issues

The Company's Sustainability Management is periodically reported to the Executive Committee, who approves the sustainability strategy of the company. There seems to be no committee dedicated to CSR issues.

Share of independent shareholder-elected Board members

[LISTED COMPANIES] In accordance with standards advocated by Vigeo, the Board is more than 50% independent.

Five members of the 9-member Board are considered independent.

Diversity of the skills and backgrounds of the Board

The Board of Directors diversity appears to be partial:

- At least 30% of directors are women
- At least 40% of directors are women
- Employee representative(s) sitting on the Board
- Board members with demonstrated professional experience in the company's sector of activities
- Board members with demonstrated expertise on CSR issues

Mr. Ignacio Cueto, Mr. Juan Cueto, Mr. Giles Agutter and Mr. Antonio Pizarro have demonstrated professional experience in the Airline Business, which is the Company's sector of activities.

Training and expertise provided to board members

Training is provided upon joining the board and through regular updates, including training on CSR issues.

The Directors Committee receive training on the Company's Compliance Program, which includes a review of the Code of Conduct, Policies and Procedures, the Due Diligence of Third Party Intermediaries (TPIs) process, the Manual of Crime Prevention, the continuous advisory of Compliance through the Ambassadors Program, the Hotline and internal investigations, risk assessment processes, certification and trainings. Also, all new directors undergo training on sustainability upon joining the board.

Regular election of Board members

Board members are elected at least every three years but these elections are staggered. Board members are eligible for re-election following 2-year terms.

Evaluation of Board's functioning and performance

Information obtained from company and public sources regarding the evaluation of board functioning and performance is insufficient.

Existence and relevance of the review of CSR issues at board meeting

The formal CSR reporting has been signed by the CEO, but there is no evidence that relevant CSR issues are reviewed at board meetings. Of note, training programmes for employees are discussed at Board meetings.

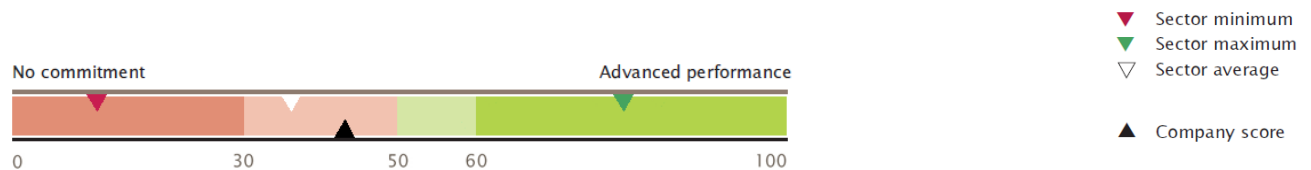
Regularity of and attendance at Board meetings

Information obtained from company and public sources regarding the regularity of and attendance at board meetings is insufficient.

Name of Board member	Role	Executive	Non executive	Employee representative	Nomination	Audit	Remuneration	Former executive	> 9 years on Board	Stock options	Paid > 1/2 executive salary	Represent > 3% company's shares	Other	Independence
Ignacio Cueto Plaza	Chairman		X									X	Represents Costa Verde Aeronáutica S.A.	
Carlos Heller Solari	Vice Chairman		X									X	Represents Axxion S.A.	
Juan J. Cueto Plaza			X						X			X	Represents Costa Verde Aeronáutica S.A.	
Henri P. Reichstul			X											X
Giles Agutter			X											X
Eduardo Novoa			X			X								X
Nicolas Eblen Hirmas			X			X						X	Represents Inversiones Andes S.A.	
Antonio Pizarro			X											X
Georges d Bourgignon	President of the Directors and Audit Committee		X			X								X

CGV2.1 Audit & Internal Controls

(score: 43, weight: 2)



[LISTED COMPANIES] Existence and independence of Audit Committee

All members are non-executive directors, and the majority are independent. However, the committee's chair is considered non-independent.
Two members of the 3-member Audit Committee are considered independent.

Skills and backgrounds of Audit Committee members

Members appear to have financial experience and relevant operational experience.

Operational and CSR risks covered by the company's internal controls system

The internal control system covers the standard issues related to financial, operational, and legal risks. In addition, the system covers some of the CSR risks inherent to the company's business operations.

- Contractual customer rights
- Working time models
- Social dialogue
- Energy efficiency
- Operations safety

- *Operations safety: Latam states that its operations may be adversely affected by a downturn in the airline industry caused by exogenous events that affect travel behavior or increase costs, such as outbreak of disease, weather conditions and natural disasters, war or terrorist attacks.*

Role of the Audit Committee in overseeing internal and external controls

The Audit Committee has a comprehensive role that includes:

- Oversee internal audit and internal controls
- Review accounting policies and be responsible for updates
- Nominate the statutory auditor
- Oversee the work of the external auditor
- Approve the type of audit and non-audit services provided and fees paid to the external auditor

Management of the CSR risks

Information obtained from company and public sources regarding the management of the CSR risks is insufficient.

- Balanced scorecard
- Risk-related training
- Monitoring of key risk indicators
- Reporting system to the Board
- Risk mapping/materiality assessment
- A Board Risk Committee with no executive part of it

Independence of the firm's external auditors

The audit firm receives non-audit fees, but these represent only 5% or less of total fees.

Non-audit fees represented 0.8% of total fees paid to in the last fiscal year.

Inclusion of CSR issues in the company's reporting

The company publishes significant CSR reporting on key material issues.



Stakeholders' feedback

A review of stakeholder sources revealed that the Company is involved in a isolated controversy of significant severity

As of 05/2018, Latam Airlines was involved in 1 controversy

- Case 1 (25/07/2016): LATAM Airlines agreed to pay USD 22m (EUR 20m) over Argentine bribes case.

A complete analysis of the severity of each case mentioned is available in Vigeo Controversy Product.

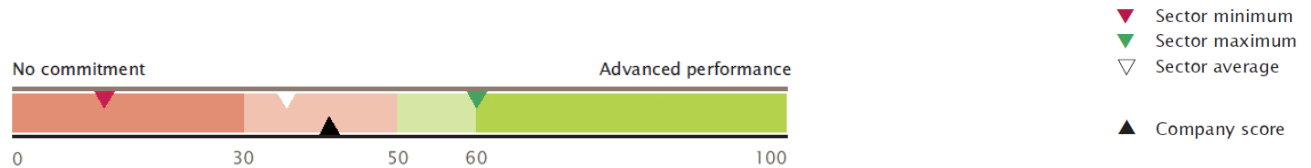
Company's responsiveness

Overall, the company is reactive
 For each of the above mentioned cases, Latam Airlines's response is considered:
 - case 1: The company is reactive: the Company has agreed to settle the case

 The analysis of Latam Airlines management of each case is available in Vigeo's controversy profile.

CGV3.1 Shareholders

(score: 41, weight: 2)



Nonexistence of voting rights restrictions

The company respects the "one share - one vote" principle.

Safeguards on transactions with major shareholder(s)

No safeguards appear to be in place, which might raise concerns with regard to the fairness of any such transaction.

Ability to add items to the agenda of the AGM and to convene an EGM

No major restrictions have been identified.

Access to voting at General Meetings

There are no major restrictions on shareholders' ability to vote, however there is no possibility of voting through online services.

Ability to vote on relevant issues in separate resolutions at AGM

Not all major items are put to a shareholder vote.
 The following items are not put to a vote at the AGM:
 - Election of board members (a separate resolution for each member);
 - Executive remuneration.

Presentation of CSR strategy to shareholders and investors

Information disclosed from the entity and public sources regarding the presentation of CSR strategy to shareholders and investors is insufficient.

- Contractual customer rights
- Working time models
- Social dialogue
- Energy efficiency
- Operations safety

Of note, the Sustainability Strategy is presented annually to the Board.

Board's attitude towards CSR-related shareholder resolutions

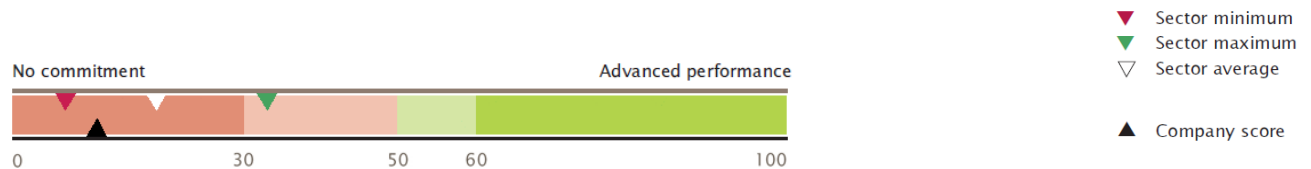
Information obtained from company and public sources, regarding the Board's attitude toward legitimate CSR related shareholder resolutions is insufficient.

Stakeholders' feedback

A review of stakeholder sources did not reveal any allegations against the company during the period under review: stakeholders' feedback is neutral
As of 05/2018, Latam Airlines did not appear to be involved in any controversy related to this sustainability driver

CGV4.1 Executive Remuneration

(score: 11, weight: 2)



[LISTED COMPANIES] Existence and independence of Remuneration Committee

No specific committee is in charge of executive remuneration, which might raise concerns.

Disclosure of senior executives' individual remuneration

[LISTED COMPANIES] All elements of executive remuneration are disclosed on an individual basis. However, the fair value estimate of individual grants under the long term incentive plans is not disclosed.

Link between Short Term Incentive Plans and the performance of the company

There is no disclosure on what rules guide the company in allocating bonuses and other short-term incentives to senior executives.

Link between the main Long Term Incentive Plan and the performance of the company

Information on the rules and performance conditions guiding the allocation of long-term incentives to senior executives is insufficient.

Link between variable remuneration and CSR performance of the company

There is no disclosure on the links between variable remuneration of executive and the CSR performance of the company.

- Contractual customer rights
- Working time models
- Social dialogue
- Energy efficiency
- Operations safety

Severance pay for senior executives

Information obtained from the company and public sources regarding severance pay for senior executives is insufficient.

Evolution of CEO-to-employee compensation ratio

Information obtained from the company and public sources regarding the compensation of CEO and the average employee salary is insufficient.

Stakeholders' feedback

A review of stakeholder sources did not reveal any allegations against the company during the period under review: stakeholders' feedback is neutral
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Contacts

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