Summary

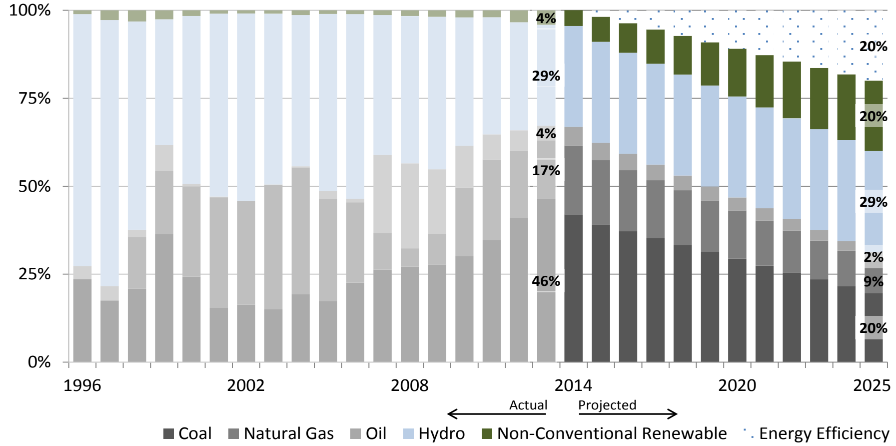
Key ESG Risks and Opportunities in Chile

July 2014

KEY FINDINGS

- **Among all ESG issues that Chile faces, the environmental issues are the most pressing given the country's historical shortcomings on energy security and its recurrent drought episodes**. To mitigate these shortcomings, the Bachelet administration issued **the Energy Agenda, which could bring fossil fuels from the current 67% of Chile's fuel mix to 31% by 2025** (see figure 1). Additionally, it will introduce a framework to regulate water management on power generation for conventional hydro and thermo electric plants.
- **The aforementioned changes could result in a significant shift in the fuel-mix and water management practices of the five main utilities in the country, as they represent 97% the country's generation capacity.** For all utilities, **non-conventional renewable energy currently represents less than 2% of their existing fuel-mix.**

FIGURE 1 Projection of Chile's Electricity Generation Fuel Mix under Bachelet's Energy Agenda from 2014 to 2025 below business as usual scenario.



For projection assumptions, see Economic Growth and Energy Security Risk section in this report. Sources: Com. Nal. Energía, Agenda de Chile Energía; MSCI ESG.

- **Bachelet's proposed laws to define two or more subsidiaries as one company for labor and social security purposes will** affect firms' incorporation practice of "Multirut". Allegedly, this practice implies atomizing a company into small business units that fall out the scope of stringent regulations to artificially decrease labor costs and curtail labor rights. This development could **exacerbate risks related to supply chain labor for companies like Cencosud**. The firm's lack of efforts to mitigate supply chain labor risks makes it more likely to be **exposed to suppliers that fuel their competitiveness through this controversial practice.**
- **Chile's inclusion in the OECD made the country change its corporate governance regulatory framework to increase market liquidity and companies' board independence. However**, given the traditional high ownership concentration in the market, **significant changes in the short and medium terms are not expected.**

TOP RATED

Viña Concha y Toro	***A***
Banco Santander Chile	***A***
Soc. Quím. y Minera de Chile S.A.	***A***
Telefónica Chile S.A.	***A***
Aguas Andinas S.A.	***A***

BOTTOM RATED

Empresa Nal. de Telecom.	***B***
E.CL S.A.	***B***
AES Gener S.A.	***B***
Cencosud S.A.	***CCC***
Empresas CMPC S.A.	***CCC***

SCOPE

This report summarizes key findings of MSCI ESG Research covering 22 parent constituents of the MSCI Chile Index and Chile's Sovereign Rating.

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SUMMARY OF ESG ISSUES IN CHILE

MSCI ESG Research sovereign and equity analysis of Chile and of MSCI Chile Index constituents, respectively, identifies the major ESG risks and opportunities facing the country and the constituents of the index. Country-specific issues pose both unique challenges and opportunities to firms operating in Chile, distinguishing it from other emerging market countries including those in Latin America.

FIGURE 2 ESG Issues in Chile

Chile is the second most **transparent and least corrupt** country in Latin America and ranks as the 22nd one out of 177 in the world

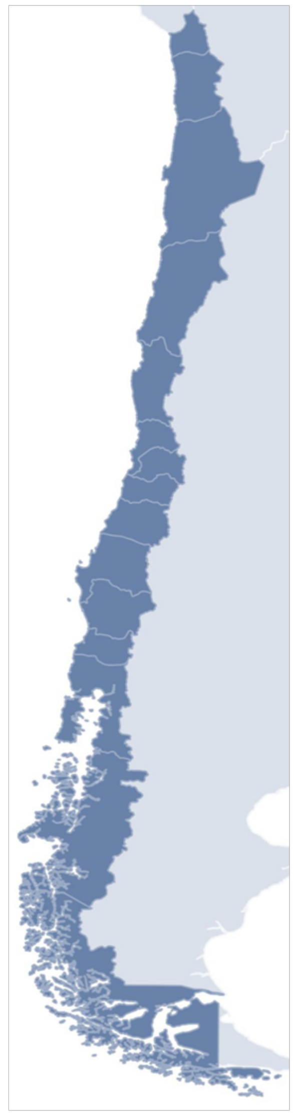
Low public debit **11.9%** of GDP vs. 49% world average

32% of cooper world's production

99% of the with access to sanitation services

GINI* = **52** higher inequality vs. Latin American Median of GINI = 50

Chile experiences 24% more strikes and labor related conflicts than the Latin American Emerging Market's median frequency



60% of Chiles primary energy is imported. Bachelet's Energy Agenda aims to mitigate Chile's energy security risks

20% target on energy efficiency by 2025

16.6 GW pipeline of renewable energy (17.5 GW current total capacity)

7 consecutive years of drought

20% target on renewable energy by 2025

SSE constituents average 25.6% of board independence, which is lower than the OECD, EM and Latin American averages of 55%, 41% and 34%, respectively

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[1] *As of September 30, 2013, as reported on January 31, 2014 by eVestment, Lipper and Bloomberg*