



# **Executive Summary**

## **External Evaluation of Board Performance**

March 21, 2012

Medellín, Colombia



## Executive Summary

Nutresa Group is one of the largest Colombian multi-latina firms. It controls 44 companies – 24 outside Colombia – with direct presence in 12 countries in the Americas and exports to 75 countries worldwide. Since 2001, Nutresa Group has made an effort to be at the forefront of corporate governance, and has been recognized as one of the companies that best follows the *Código País* (local corporate governance standards) in the manufacturing sector. At the same time, the Group has committed itself to include a multidimensional view of sustainability within its corporate philosophy, developing its strategic framework around this element. In recognition of this commitment, Nutresa Group was included in the "Sustainability Yearbook 2011" and the "Dow Jones Sustainability Index 2011". In order to reach its goal of obtaining the highest standards of corporate governance, Nutresa Group commissioned Prospecta to undertake an external independent performance evaluation of its Board of Directors.

The main objective of the methodology used in the performance evaluation of the Board is to generate value through a diagnosis of its current performance and to suggest improvement opportunities based on international best practices. Prospecta's proprietary methodology evaluates Board performance through stages of excellence. The stages of excellence approach allows diagnosis for each dimension evaluated and signals improvement opportunities. These stages begin at formal local<sup>1</sup> compliance, move towards compliance of international best practices<sup>2</sup> and a final stage that refers to superior performance or excellence. In the final stage, the Board of Directors value to the company and the business is maximized.

Specialized literature and international best practices suggest a series of elements to be taken into account for optimal Board performance. Prospecta's methodology addresses these elements along four dimensions:

- (1) Structure / Government
- (2) Coordination
- (3) Interaction
- (4) Strategic focus

These dimensions unfold into 37 specific elements of performance, which were evaluated to obtain the compliance score of the Nutresa Group Board of Directors, compared to international best practice. This evaluation was carried out over the course of four weeks in February 2012<sup>3</sup>.

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<sup>1</sup> The sources used by the Prospecta methodology to establish the requirements of the Colombian standards compared to the 37 elements of performance are: *Código País*, Ley 222-Código de Comercio, Ley 964-Mercado de Valores

<sup>2</sup> The sources used by the Prospecta methodology to establish the requirements of the international standards compared to the 37 elements of performance are: Principles for Enhancing Corporate Governance-Basilea, Principios de Gobierno Corporativo de la OCDE, Código de Mejores Prácticas Corporativas-Consejo Coordinador Empresarial México, Código de Gobierno Corporativo-FRC Reino Unido, Código de la Mejores Prácticas de Gobierno Corporativo- Instituto Brasileiro de Gobierno Corporativo, Comparison of Corporate Governance Guidelines and Codes of Best Practice- Estados Unidos

<sup>3</sup> Prospecta was commissioned to evaluate de Boards performance compared to the local compliance and requirements mentioned in the international standards

To evaluate Board performance along the 37 elements the consulting team conducted in-depth interviews, undertook a detailed document review of the Board of Directors and Committee meetings from 2010 and 2011, and a full revision of all the public documents of the company (statutes, Corporate Governance Code, performance reports, among others). In-depth interviews had an average duration of one hour and were conducted with all the principles of the Board of Directors, the corporate executive team that continuously interacts with the Board and with two executives with leading positions in the company.

### Interviews conducted by Prospecta for the performance evaluation

Interviewee	Position	
Member	David Bojanini	Board Chairman
	Antonio Celia	Board member (Independent)
	Jaime Alberto Palacio	Board member (Independent)
	Mauricio Reina	Board member (Independent)
	Alberto Velásquez	Board member (Independent)
	José Alberto Vélez	Board member
	Gonzalo Pérez	Board member
Executive	Carlos Enrique Piedrahita	Chief Executive Officer
	Jairo González	Vice president General Secretary
	Carlos Ignacio Gallego	President Servicios Nutresa S.A.S.
	Ana María Giraldo	Vice president Corporate Finance
	Sol Beatriz Arango	President Chocolates Business/ Vice president Southern Strategic Region

The document review was conducted over two weeks. Documents that are not accessible to the public were studied at the company's facilities, while those that are public were taken from their current version published on the Nutresa Group website.



## Documents analyzed by Prospecta for the performance evaluation

Document	Date
Board of Directors Acts(29)	January of 2010 – October of 2011
Audit Committee Acts (9)	January of 2010 – October of 2011
Corporate Governance Committee Acts(2)	October of 2010 – November of 2011
Board Issues Committee Acts(2)	October of 2010 – October of 2011
Risk Committee presentations(7)	September of 2009 – April of 2010
Self-evaluations	2009, 2010, 2011 (four answers)
Statutes	Updated
Governance Code	Updated
Information sent before meetings	October, November and December of 2011

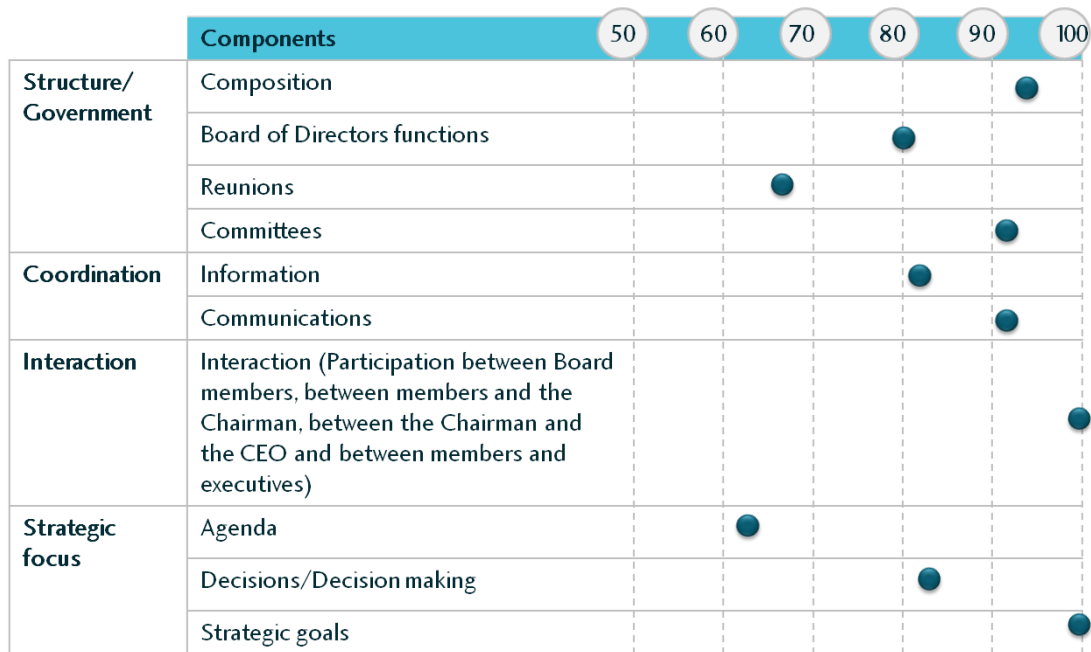
All individuals involved in the evaluation process (both in interviews as in providing the requested information) exhibited great openness and candor and freely shared their opinions with the consulting team.

## Evaluation Results

The Nutresa Group Board of Directors is a structured and mature governance body with full compliance of local Colombian requirements, according to the 37 performance elements evaluated. In addition, it meets the large majority of international best practices for Boards of Directors (see Figure 1, below). The dimensions where Nutresa's Board stands out are: **Interaction** (relationship quality, communication and freedom of expression among the members of the Board, the President of the company and the executives) where we identified superior performance. The **Strategic Goals** component reflects complete compliance (100 points) with regards to the alignment of the Board's activities around the strategic goals of the company.

Other high performance areas (over 90 points over 100 indicating full compliance of international standards) of the Board are: The **Structure/Government** dimension, the **composition of the Board** (95) and the **Committees** (92); and the **Communication** component (94).

## Evaluation results by component



## Recommendations

We did identify improvement opportunities for reaching superior compliance of international best practices, which could generate greater value to Nutresa Group through its Board performance. The main improvement opportunities are summarized in the following recommendations:

- 1. Create the Senior Independent Director figure.** Best practice recommends that one of the independent principals should have the formal responsibility to lead, at least once a year and even in times of non-crisis, a meeting of the independent members, to strengthen and enhance a proactive independent posture.
- 2. Include a year's meeting of the independent members with the Chairman of the Board.** In the same spirit of the previous recommendation, the Senior Independent Director should convene and lead this formal meeting only among the independent members and the Chairman of the Board. Results of this meeting should be formally recorded.
- 3. Define the profiles and experience needs of future Board members.** Although the selection of new Board members is the responsibility of the shareholders, best practice suggests that the general guidelines in regard to the profiles and experience of future

members should be discussed by the Board of Directors. As the governing body that makes decisions related to the company's strategy, the Board has the best insight into the combination of skills required for the future. These discussions should be shared with the shareholders for them to take into account when new Board members are being proposed. At the same time, these discussions should review the needs and requirements for Board alternates, which could (in unpredictable circumstances), have to take a permanent role on the Board. If this were the case, alternates should fulfill with the eligibility requirements of the principal members.

**4. Design a Board of Directors' Action Plan.** In addition to having clarity about the general agenda and meeting dates, the Board of Directors should have an annual action plan, which may include issues for proactive discussion (for example, the definition of the profiles and experience required for future Board members, special strategy meetings, among others), and additional meetings (independent meetings with the Chairman, among others). We suggest that this action plan arise from the discussions of the *Comité de Asuntos de Junta* (Board Issues Committee).

**5. Focus informative presentations to promote more proactive discussions and deliberation.** The Board of Directors agenda is remarkably well structured, organized, and achieves the meetings' main objectives. Information sent prior to the Board meetings is complete and relevant, and is sent to the Board members in advance as required by Colombian standards. Our estimate is that currently 50% of the Board's meetings are spent on discussion and 50% in presentation mode (which also allows some discussion). We recommend that the presentations delivered in the Board meeting should focus even more on noticeable results and specific topics of interest, for deliberation and strategic discussion. By doing this, the Board would move toward higher performance standards (which indicate that no more than 30% of the agenda should be devoted to presentations). Sending the information prior to the board meetings with additional days of advance could permit further preparation, allowing for more concise in-Board presentations.