



Corporate Coordination Council

Best Corporate Practices Code

Mexico, 2010.



BEST CORPORATE PRACTICES CODE



BEST CORPORATE PRACTICES COMMITTEE

MEXICO, 2010

CORPORATE COORDINATION COUNCIL



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TABLE OF CONTENTS

Message from the Chairman	5
Chapter I. Introduction	7
Chapter II. Corporate Governance	9
Chapter III. Shareholders' Meeting	11
III.1. Information and Agenda of the Shareholders' Meeting	
III.2 Information and Communication between the Board of Directors and the Shareholders.	
Chapter IV. Board of Directors	13
IV.1 Role	
IV.2 Composition	
IV.3 Structure	
IV.4 Operation	
IV.5 Responsibilities of the Directors	
Chapter V. Role of Auditing	22
V.1 Generic Role	
V.2 Selection of Auditors	
V.3 Financial Information	
V.4 Internal Controls	
V.5 Related Parties	
V.6 Review of Compliance with Provisions	
Chapter VI. Role of Evaluation and Compensation	29
VI.1 Generic Role	
VI.2 Operating Aspects	
Chapter VII. Role of Finance and Planning	32
VII.1 Generic Role	
VII.2 Operating Aspects	

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CHAIRMAN'S MESSAGE



The stability and permanence of companies in Mexico, as well as throughout the rest of the world, are being affected by certain risk factors that have garnered great relevance as of late, including climate change, supply chain dynamics, technological innovation, recurring financial crises, scarce financial resources, competition, and in general, the effects of globalization.

Corporate competitiveness is a basic element to be able to safeguard our shareholders' investment, sources of employment, as well as the employment of interested third parties, which require modern tools to face all the challenges faced by today's business people.

It is appropriate for the Board of Directors of a Company to be able to deal, with greater intensity, with its improved performance, using, among other things, best corporate practices.

In order to achieve the above, the Code contains principles that give rise to better corporate practices that seek to assist companies in their institutionalization processes, improve operations transparency, the adequate disclosure of information, competition in a globalized world, access to sources of financing under favorable conditions, access to stable succession processes, and obtaining more permanence throughout time, all to the benefit of the shareholders and the interested third parties.

Highlights from this second revised version of the Best Corporate Practices Code include, in order of importance, the recommendation of not involving the Board of Directors in activities that correspond to the daily operations of the Company; the extension of the concepts regarding the figure of an independent director; the emphasis upon the convenience of having a formal succession plan; insistence upon the importance of having a strategic plan; and specifications regarding the concepts related to the drafting of a budget. With respect to its impact upon the permanence of the Company, emphasis is placed on the identification, management, control and disclosure of the risks to which the Company itself is subject to.

This second edition of the Code has taken into account the characteristics of Mexican corporations, especially family-owned companies, their values and culture, their shareholder structures and the importance that certain shareholders have on the management of the Company.

The Code's recommendations are directed and applicable to all companies, whether it is a business corporation, limited liability company, or publicly-held company, regardless of size or whether the company is publicly traded or not. This is a characteristic that distinguishes this Code from the majority of the codes around the world.

We invite our shareholders, investors, directors, officers, analysts, advisors, academics and all other parties interested in this subject, to support us in the adequate dissemination and implementation of the Code's recommendations, especially among small and medium-sized companies, since these are those companies that require the most support to be able to compete in an open economy, preserve the net worth of the Company, generate jobs, and ensure the survival of the Company.

Armando Paredes Arroyo L.





BEST CORPORATE PRACTICES CODE



CHAPTER I INTRODUCTION

Companies¹ play a central role in the promotion of economic development as well as the social progress of our country; they are the motor that causes Mexico to grow, and are also responsible for generating wealth, employment, social well-being, infrastructure, assets and services.

The continuity, performance, efficiency and social responsibility of companies are of both the public and private interest and therefore, corporate governance is a priority on the domestic agenda.

In a global economy where there is a series of guidelines that have been established by the countries that are members of global authorities, such as the Organisation for Economic Co-Operation and Development (OECD), to which Mexico is a party, issued in 1999 "Principles of the OECD in Corporate Governance", which guidelines were reviewed in 2004. These principles are a reference point for each country to issue its own code, applicable within its regulatory framework, and applicable to its corporate culture.

At the initiative of the Corporate Coordination Council (Consejo Coordinador Empresarial, or "CCE"), the Best Corporate Practices Committee (the "Committee") was established and in 1999, the Best Corporate Practices Code ("Code") issued, establishing recommendations for the best corporate governance for Mexican companies.

The experience of its implementation during the last few years, and the new considerations regarding this subject at the international level, have caused the CCE, as the party responsible for the issuance, review and adequate diffusion of the Code, to update the recommendations made in the First Reviewed Version published in November 2006, and now this Second Reviewed Version published in April 2010.

In the edition of the same, the needs and characteristics of Mexican companies were taken into account, as well as their origin, shareholder structure, and the importance of certain groups of shareholders to its management. The goal is to help the companies become more institutional, competitive, and long-standing; to be able to access diverse sources of financing under favorable conditions, and to offer trust to both domestic and international investors.

The main principles of the Code are to establish the best corporate practices that contribute to improving the composition and operation of the Board of Directors and its supporting agencies, which are applicable to all types of public and private companies in general, regardless of size, activities, or shareholder

¹ The term "company" makes reference to stockholding corporations, limited liability companies, and non-profit companies.



composition.

If the recommendations are of voluntary application, it is desirable that companies incorporate them in their corporate governance; for such purpose, each one shall define, according to its needs, the pace and measure of the implementation of the same. In this regard, companies in Mexico shall be more competitive among each other and in the rest of the world, because they will be able to have at their disposal, the best, internationally accepted, corporate practices.

It is important to point out that the companies that trade on the stock market or issue debt instruments, financial institutions, retirement savings institutions, etc., must observe the regulations applicable to corporate governance, which establish strict observance.

To facilitate the measurement of the amount of advancement in the implementation of the recommendations, Exhibit I of the Code includes the Level of Adhesion Questionnaire, which shall be used as a metric by the company itself; the authorities, the stock market, and the participants on the stock market; financial institutions, investors and analysts, securities ratings agencies and other interested parties.

Also included are various Exhibits that deal with certain relevant matters contained in the Code, providing additional explanations with improved breadth and precision, seeking similar understanding among all interested parties.

The Code is available on the webpage of the Corporate Coordination Council: www.cce.org.mx, and any questions or comments can be sent to the e-mail address of the Best Corporate Practices Committee: cmpec@cce.org.mx.



CHAPTER II CORPORATE GOVERNANCE



In order to obtain a common language among companies in Mexico similar to the language used in the majority of companies and international institutions that follow the principles of the OECD, the Committee has considered the following bases to be convenient:

Government comes from the Latin word "*gubernare*", which means to lead with authority, to guide, direct; action and effect of governance.

Corporate comes from the Latin word "*corpus*", which means authority, belonging or related to a corporation or a community.

Practice comes from the Latin word "*practicus*", which means to carry out something according to the applicable rules or customs.

In such manner, the original or internationally accepted concept provides that "The system under which companies are directed and controlled".

The Committee considers that such a system should take into account the guidelines established by the shareholders of the company, as well as the recommendations for the best corporate practices.

In this context, it is clear that the effort of the Board of Directors is to define the strategic vision, oversee the operations, and approve any handling, while the Chairman is in charge of the handling, conducting and execution of the business in line with the strategies and guidelines approved by the Board of Directors. In the measure that this distinction is maintained, it will be easy to determine the guidelines of authority and responsibility.

In broad terms, the OECD considers corporate governance to include a group of relationships between the management of the company, its directors, shareholders, and interested third parties². Corporate governance also provides for a structure through which the company's goals are determined, and its performance and compliance are monitored.

A good system of corporate governance will contain the following basic Principles:

² The concept of "interested third parties" makes reference to any interested individual or Company, other than the shareholders interested in the proper performance, stability and continuity of the company.

1. Equal treatment and protection of the interests of all the shareholders.
2. The recognition of the existence of third parties interested in proper performance, stability, and continuity of the company.
3. The issuance and responsible disclosure of information, as well as the transparency of the company's management.
4. Assurance that there is in fact a strategic vision of the company, as well as the oversight and effective performance by the management.
5. Exercise of fiduciary responsibility³ of the Board of Directors.
6. The identification, management, control and disclosure of the risks⁴ to which the company is subject.
7. The declaration of the company's principles of ethics and social responsibility⁵.
8. The prevention of illicit operations and conflicts of interest⁶.
9. The disclosure of inappropriate facts as well as the protection of the informants.
10. Compliance with all the various regulations to which the company is subject.
11. Providing certainty and trust to the investments and interested third parties regarding the honest and responsible conducting of the company's business.

In order to achieve the efficient operation of the system of corporate governance, the Committee suggests that the basic Principles provided, and the Practices derived from the above, be adopted as part of the company's culture, which must be overseen from the highest level of management and communicated to all the personnel among the different departments of the organization.

³ The fiduciary responsibility of the company consists of acting in good faith, with all due diligence and care, seeking always the best interests of the company and of its shareholders.

⁴ The possibility that internal and/or external factors of the company may affect the stability and continuity of the company.

⁵ The social responsibility of the company must find a balance between the objectives of the company and the interests of the community at large.

⁶ Conflicts of interest arise when the loyalty of a company or individual is compromised.



CHAPTER III SHAREHOLDERS' MEETING



The Shareholders' Meeting is the highest authority in the company. If in the majority of the cases this authority meets on a yearly basis, it is important that it acts formally, transparently and efficiently, since it is a decision-making authority with basic control over the life of the company, and it is also in charge of protecting the interests of all the shareholders of the company.

It should be noted that the recommendations presented below apply to both Ordinary and Extraordinary Shareholders' Meetings.

III.1 Information and Agenda of the Shareholders' Meeting.

The agenda of the Shareholders' Meeting should precisely and clearly delineate the information to be handled during each meeting, and at such meeting, each matter must be analyzed and discussed separately. We recommend the Agenda not include the item "Miscellaneous or Various Matters".

Practice 1.

Do not group together related matters with different topics under the same item of the agenda, and avoid the item known as "Miscellaneous or Various Matters".

It is important for shareholders to have access, with sufficient prior notice, to all the information necessary for the adequate making of decisions at the Shareholders' Meeting.

Practice 2.

All information regarding each item on the agenda of the Shareholders' or Partners' Meetings should be available at least fifteen days in advance.

For the purpose of the company officers to clearly know how to exercise the rights of the shareholders they represent, in relation to the items on the agenda, it is necessary for the latter to provide detailed information and documentation, as well as the instructions regarding voting alternatives.

Practice 3.

Shareholders should issue instructions to their attorneys-in-fact regarding how they should exercise their voting rights corresponding to each one of the items on the Meeting Agenda. Such wishes should be provided via a form containing detailed information and possible voting alternatives regarding all matters on the Agenda.

It is important to have access to the profile of the directors of the company and that the shareholders, when they approve the directors, have all the information necessary that allows them to evaluate their profiles, category of director, and proceed to provide a much more informed vote.

Practice 4.

The information that is delivered to the shareholders shall also include the proposal for the composition of the Board of Directors as well as the CVs of the candidates, including sufficient information to evaluate their category and as applicable, their independence with respect to the company.

III.2 Information and Communication between the Board of Directors and the shareholders.

The Board of Directors is responsible for guaranteeing effective communication between the company and the shareholders. The overarching purpose of presenting an annual report to the Shareholders’ Meeting is to show the financial status of the company, as well as the plans and activities in process or planned by the company. In order to enrich the information provided by the company, it is recommendable for the shareholders to have access to information related to the activities of the intermediate authorities of the company.

Practice 5.

The Board of Directors should include, when making its annual report to the Shareholders’ Meeting, the relevant aspects of the work of each one of the intermediate authorities in the company. It is suggested that the reports of each intermediate authority presented before the Board, be at the disposal of the shareholders together with all materials for the meeting, except for any information considered confidential in nature. In addition, it is recommended that the annual report include the names of the members of each intermediate authority of the company.

The lack of participation of all the shareholders at the Meetings, and the limitations of the same as a forum for communication of the company with its investors, justify the establishment of the mechanisms of communication necessary to allow the shareholders, the investors, and the general public to have adequate and timely access to the information related to the day-to-day operations of the company.

Practice 6.

It is suggested that the company have the necessary means of communication that will allow for adequate reporting to the shareholders and the general investors.





CHAPTER IV BOARD OF DIRECTORS



The daily operation of a company is the responsibility of the General Director and his management team, while the job of defining the strategic vision, overseeing the operations, and approving all management, is the responsibility of the Board of Directors.

In these matters, all members of the Board of Directors shall have fiduciary liability, acting individually or jointly.

In order to comply with their objectives, the Board should consist of members that are not involved in the day-to-day operations of the company, and which may support both an eternal and independent vision of the company. In addition, to facilitate their work, the Board can count on intermediate authorities that are dedicated to analyzing information and to proposing actions regarding specific tasks that are important to the Board, in order for the same to have more information to be able to make decisions in a more efficient manner. In addition, there must be assurance that there are clear rules regarding the composition and functioning of the Board and the intermediate authorities of the company.

IV.1 Role.

While it is true that the law provides for certain powers and obligations of the Board of Directors, the Committee considers that complying with the following shall help in defining its role, and contribute to making the company's information more useful, timely and trustworthy.

Practice 7.

In addition to the powers and obligations of the Board of Directors as provided under the laws specified for each company, the following powers and obligations shall also be included:

- I. **Define the strategic vision of the company.**
- II. **Oversight of the operation.**
- III. **Approval of tasks.**
- IV. **Appoint the General Director and the highest-level officers⁷ of the company, as well as evaluate and approve the performance thereof.**
- V. **Ensure that all the shareholders receive equal treatment, have their rights respected, protect their interests, and have access to the information of the company.**

⁷ Senior management makes reference to the category of positions directly below that of General Director.

- VI. Ensure the creation of value for the shareholders and the continuity of the life of the company.
- VII. Ensure the issuance and responsible disclosure of the information, as well as the transparency of the management.
- VIII. Ensure the establishment of the mechanisms of Internal Controls and the quality of the information.
- IX. Establish the necessary policies, and approve operations with Related Parties⁸, as well as decide on the contracting of expert third parties that will issue their opinions in this regard.
- X. Ensure the establishment of mechanisms for the identification, analysis, administration, control and proper disclosure of risks.
- XI. Promote the establishment of a Formal Succession Plan for the General Director and the senior management of the company.
- XII. Encourage the company to issue its Ethics Code and Principles of Corporate Social Responsibility.
- XIII. Encourage the company to take into consider interested third parties in the making of decisions.
- XIV. Promote the disclosure of improper facts and the protection of informants.
- XV. Ensure the establishment of contingency plans and the recovery of the information.
- XVI. Ensure that the company has the mechanisms necessary to allow for the proving of compliance with the various legal provisions applicable to the company.
- XVII. Provide certainty and trust to investors and interested third parties regarding the honest and responsible conducting of business of the company.

The Committee considers it important to clearly and specifically determine the role of the Board of Directors, and not involve the Board in other activities that are part of the daily operations of the company or part of the attributions of the General Director and its management team, since this would bring with it confusion and the dilution of authority as well as responsibility.

Practice 8.

The Board of Directors should not include the activities of the General Director's office and its team, in order for the lines of authority and of responsibility to remain transparent.



IV.2 Composition.

The composition of the Board of Directors is an essential element for its adequate operation. Therefore, it is necessary to have a minimum number of directors to be able to guarantee a plurality of opinions within

⁸ Includes inter-company operations among the same economic entity, or its associated companies and individuals or companies related to the shareholders, directors, the General Director and the senior executives or officers of the company.

the Board. However, there should also be a maximum number of members, to ensure that the members actually have the ability to express and discuss their points of view without falling into any inefficiency that may give rise to the execution of a meeting with an excessive number of directors.

Practice 9.

The Board of Directors should be made up of between 3 and 15 directors.

There should not be alternate directors, but if there are, the director should be on a team with its alternate director, in order to be able to exchange information and to achieve better communication. The director should participate in the selection of its alternate director, and such alternate director should attend Meetings only in exceptional cases.

Practice 10.

Alternate directors should not be appointed, but if they are, then each director shall suggest an alternate director, and a communication process should be established that will allow for effective participation.

The diverse composition of the Board of Directors is convenient for it to achieve its role; and it is important to take into consideration the issue of the independent director.

This term is used to identify those directors that are not linked to the directors' team of the company but rather have a much more objective, impartial, conflict-free vision, are not subject to personal, economic or financial interests, and are called to become part of the Board of Directors as a result of their experience, capacity and professional prestige.

In order to be considered independent, the director shall not be subject to any of the following:

- I. Be employed, or act as a director of the company.**
- II. Have acted as an employee or director of the company during the twelve months prior to the date of his appointment.**
- III. Without being an employee or director of the company, have significant influence⁹ or command power¹⁰ over the directors of the company.**
- III. Act as a consultant to the company, or partner or employee of consulting firms of the company, or consultants of the company or its affiliates and his income depends significantly¹¹ upon this contractual relationship.**
- IV. Be a customer, supplier, debtor or creditor of the company, or partner, or employee of a company that is a significant customer, supplier, debtor or creditor¹².**

⁹ Significant influence includes the title-holding of rights that allow, directly or indirectly, the exercise of a vote with respect to at least 20% of the capital stock of the company.

¹⁰ Command power includes the actual power to decisively influence agreements or resolutions adopted in the Shareholders' Meeting or Board of Directors Meeting, or any actions of the company. It is presumed that the shareholders with control, or part of the group with control of the company, has this power.

¹¹ Significant income means more than 10% of the income of the advisor or consultant, or of the consulting firm.

¹² A customer or supplier is considered important when the sales or to the company represent more than 10% of the total sales of the customer or supplier, respectively. In addition, a debtor or creditor is considered important or significant when the amount of the credit line exceeds 15% of the assets of the company or of its adverse party.

- V. Be the employee of a foundation, university, non-profit organization, or general partnership receiving significant donations from the company¹³.
- VI. Be the General Director or high-level officer of a company on which the General Director or a high-level officer of the company in question is dependent; and
- VII. Be related to¹⁴ any of the parties mentioned from items I to IV, above, when such influence may take away such person's independence.

It is important to point out that the items above, when discussing the company, must include the companies of the corporate group to which the company belongs.

A shareholder that does not exercise significant influence, without command power, or with no connections to the management team of the company, may be considered an independent director.

Any alternate director of an independent director, if any, must also be independent in nature.

An independent officer must always keep in mind his fiduciary duties and the fact that when representing the interests of all the shareholders, his performance must always be objective, impartial, honest and free of any conflicts of interest.

¹³ Significant donations include those representing 15% or more of the total donations received by the institution.

¹⁴ This will apply to the spouse and relatives up to the fourth degree of consanguinity or affinity for the cases provided under items i and ii; and to the spouse and relatives up to the first degree of consanguinity or affinity for the cases provided under items iii and vi.



Practice 11.

At the time the independent director is appointed, he should deliver a declaration of compliance with the requirements of independence, a statement of being conflict-free, and the ability to exercise his powers and obligations in function of the best interests of the company to the Chairman of the Shareholders' Meeting.

In order for the independent directors to comply with their purposes, it is necessary that they represent a significant percentage within the Board of Directors.

Practice 12.

We recommend that the independent directors represent at least 25% of the total directors.

The participation of shareholders on the Board of Directors is fitting and appropriate. In particular, the participation of those shareholders that are not part of the management team is desirable, even when they belong to the group that controls the company, since their characteristics allow them to be the ideal candidates to be a part of the Board of Directors. **These shareholders are considered equity directors.**

The officers of the company shall be considered related directors, and if in addition they are also shareholders, then they shall be considered related equity directors.

Practice 13.

At least 60% of the Board of Directors should consist of, as a whole, both independent and equity directors.

In order to be able to evaluate the composition of the Board of Directors, the company must provide information regarding the profile and category to which the directors belong.

Practice 14.

The annual report presented by the Board of Directors should include the category of each director and mention the professional activities of each one of these to the date of the report.

IV. 3 Structure.

The Committee believes that there are at least three basic functions wherein the Board of Directors has to adopt decisions that are important for the company: auditing, evaluation and settlement, and finance and planning.

The Committee recommends the creation of one or several intermediate authorities to deal with the three functions mentioned above, depending on the needs of each company, as mechanisms for providing assistance to the work of the Board of Directors; structurally, the aforementioned are composed of members of the Board and functionally, they are an extension of the Board for providing assistance thereto in the study of matters on various subjects.

It is important to note that the intermediate authorities do not intervene in the operation of the company. Therefore, in order to fulfill their obligations, the authorities will be assisted by the work of the administrative structures, therefore, the intermediate authorities shall not constitute an executive body nor shall they assume the functions that correspond to the Board of Directors or to the operational areas of the company.

Practice 15.

It is recommended that, for purposes of making more informed decisions, the Board of Directors undertake the audit, evaluation and remuneration, and finance and planning functions established further on in the Code, with the support of one or several intermediate authorities, as necessary.

It is acknowledged that according to international practice, intermediate support authorities created for the fulfillment of these specific functions are known as "committees."

The participation of independent members of the Board in the work of the intermediate authorities of the Board of Directors is considered important.

The recommendation of the best corporate practices committee is that the committees are solely composed of independent members of the Board, however, for the adoption thereof, the phase that the company is in with regard to its institutionalization process and whether it is subject to specific regulations on the matter, shall be taken under consideration.

Practice 16.

The following is recommended for intermediate authorities:

- I. Some or several authorities may be created if and when the aforementioned include clear and precise objectives and the composition and functions thereof are defined.**



- II. That the members thereof do not have any conflicts of interest.
- III. That said authorities are solely composed of regular independent members of the Board; however, the companies may begin the institutionalization process with a majority of independent members of the Board and decide the pace and scope to which the recommended practice shall be observed.
- IV. That said authorities are composed of at least three and at the most seven members, who shall have adequate experience in the area that the intermediate authority specializes in.
- V. That said, authorities provide the Board of Directors with reports on their activities, at least every quarter, in order for the aforesaid information to be included in the agenda of the meetings of the Board of Directors.
- VI. The chairman of each intermediate authority shall invite the officers of the company whose responsibilities are related to the items on the agenda of the meeting, to attend the aforementioned meeting.
- VII. That each independent member of the Board participate in, at least, one intermediate authority.
- VIII. That the intermediate authority in charge of auditing is presided over by an independent member of the Board who has knowledge and experience in accounting, financial, and control matters.

IV. 4 Operation.

It is advisable, for the proper fulfillment of its functions and responsibilities, that the Board of Directors meet with the frequency necessary for guaranteeing a timely and permanent follow-up of the business of the company.

Practice 17.

It is advisable for the Board of Directors to meet at least four times a year, dedicating the time and diligence necessary to adequately tend to the business of the company.

It is important for the companies to have mechanisms that guarantee receptiveness within the Board of Directors itself in order for the functions of the Board not to depend on a single person or reduced number of persons.

Practice 18.

The existence of provisions whereby a meeting of the Board of Directors is called to order with a 25% approval of the members of the Board or of the chairman of an intermediate authority, is recommended.

The active participation and responsibility of the members of the Board of Directors translates into a higher degree of institutionalism for this authority. In order to be able to ensure this, it is important to provide the information to the members of the Board beforehand in order for them to have the elements necessary for the fulfillment of their functions.

Practice 19.

It is advisable that the members of the Board have access to any information that is relevant to and necessary for the adoption of decisions, as established in the agenda included in the notice at least five business days prior to the meeting. The foregoing shall not be applicable for matters requiring confidentiality; however, in this case the necessary mechanisms shall be established in order for the members of the Board to evaluate the proposals on the aforesaid matters in a timely and adequate manner.

A member of the Board that is appointed for the first time shall have the information necessary that will allow them to perform their job properly. For said purposes, it is advisable that the member of the Board have expertise in the business and knowledge on both their strategic position and the financial and operations situation of the company.

Practice 20.

When the members of the Board are appointed for the first time, it is suggested that they are provided with the information necessary in order to update them on the matters of the company and therefore allow them to fulfill their new responsibility.

IV. 5 Responsibilities of the Members of the Board.

The members of the Board undertake obligations and responsibilities at the moment that they assume their position. A lack of knowledge does not exempt them from their fiduciary obligations, and therefore, it is important that they have full knowledge of the legal scope, implications, and statutory obligations of their functions.

Practice 21.

It is advisable for each member of the Board to be provided with the necessary information on the significance of the obligations, responsibilities and powers that are involved in being a member of the Board of Directors of the company.

The Committee believes that it is important for the company to have a document that establishes the regulations on behavior that all the members of the Board shall adhere to during their time on the Board of Directors.

Practice 22.

In order to obtain an optimal fulfillment of the fiduciary duties and responsibilities of the members of the Board of directors, adherence to the following is recommended:

- I. Inform the Chairman and the other members of the Board of Directors about any situation where there is, or there could be, a conflict of interest, abstaining from participating in the corresponding deliberations.**
- II. Employment of the assets of the company exclusively for compliance with the business purpose as well as the definition of clear policies that will permit, in cases of exceptions, the use of the aforementioned assets for personal matters.**
- III. Dedicate the necessary time and attention to their appointment, attending at least 70% of the meetings that are called in the course of the year.**
- IV. Maintain absolute confidentiality on all information they receive as the result of the execution of their duties and, especially, on their own participation, as well as on the participation of the other members of the Board, in the deliberations that take place during the meetings of the Board of Directors.**
- V. The equity members of the Board and, if applicable, their corresponding alternate members, shall keep each other informed on the matters discussed during the meetings of the Board of Directors that they attend.**
- VI. Provide the Board of Directors with assistance through opinions and recommendations derived from the analysis of the performance of the company, in order for the decisions that are adopted to be duly substantiated.**
- VII. Establish a mechanism for the evaluation of performance and compliance with the fiduciary responsibilities and duties of the members of the Board.**

CHAPTER V

AUDITING FUNCTIONS

The Committee recommends the existence of an intermediate authority that will provide the Board of Directors with assistance for the auditing functions, making sure that both the internal audit and the external audit are performed with the highest objectivity and independence possible, ensuring that the financial information that reaches the Board of Directors, the shareholders and the public in general, is released and disclosed responsibly and transparently, as well as also being sufficient, timely, and that it reasonably reflects the financial situation of the company.

The Committee also recommends the permanent validation of the internal control and the release of financial information; that the transactions with related parties are analyzed and evaluated, and that close attention is paid to potential conflicts of interest.

The Committee believes that what is essential is that the selected intermediate authority comply fully with the functions stated herein and that it ensures that the proposals are presented to the Board of Directors, in order for the Board to adopt the corresponding resolutions.

V. 1 Generic Functions.

It is important that there is coordination between the internal auditor, the external auditor, the Comptroller, and the other parties involved during all stages of the audit process.

Practice 23.

It is advisable that all the following functions are complied with:

- I. Recommend the candidates for external auditor of the company, the hiring conditions, and the scope of the professional work to the Board of Directors and supervise compliance therewith. Likewise, recommend approval of additional services, other than the auditing services, that will be provided by the external auditors.**
- II. Act as a communications channel between the Board of Directors and the external auditors, as well as ensure the independence and objectivity thereof.**
- III. Review the work program, the letters of observations, and the internal and external audit reports and inform the Board of Directors on the results.**

- IV. Periodically meet with the internal and external auditors, without the presence of company officers, to hear their comments and observations on the progress of their work.
- V. Present an opinion on the policies and criteria employed for the preparation of the financial information to the Board of Directors, as well as on the process for the release thereof, ensuring the reliability, quality and transparency thereof.
- VI. Contribute to the definition of the general guidelines for internal control, for the internal audit and evaluate the effectiveness thereof.
- VII. Verify that the mechanisms established for risk control to which the company is subject, are complied with.
- VIII. Coordinate the work of the internal and external auditor and of the Comptroller.
- IX. Contribute to the establishment of the policies on transactions with related parties.
- X. Analyze and evaluate transactions with related parties in order to recommend approval thereof to the Board of Directors.
- XI. Decide the hiring of expert third parties that will issue an opinion on transactions with related parties or any other matter, which will permit an adequate fulfillment of their duties.
- XII. Verify compliance with the Code of Ethics and the mechanism for the disclosure of improper actions and protection of informants.
- XIII. Provide the Board of Directors with help for the analysis of the contingency and information-recovery plans.
- XIV. Verify the availability of the necessary mechanisms that will ensure that the company complies with the various legal provisions applicable thereto.

V. 2 Selection of Auditors.

During the selection process, the technical capacity and the independence of the auditors, as well as their professional prestige, must be taken into account. During the aforesaid process, any circumstance that could bear an impact on the objectivity of the auditor must be monitored, as would be the case where the income of the auditor's firm depends significantly on the company or implies some type of conflict of interest.

In the event that the auditors provide the company with services other than the audit itself, it is important to monitor the nature and the extent of the aforementioned services in order to guarantee that the objectivity is not affected by any conflicts of interest.

Practice 24.

It is suggested that the Board of Directors is recommended to refrain from contracting a firm where the fees received for all the services rendered to the company represent a percentage greater than 10% of the total income of said firm for the external audit of the financial statements as well as for any other service.

The audit opinion provides the opinion of an independent third party on the reasonableness of the financial statements. In the event that the person that issues the aforesaid opinion is responsible for this function over a long period of time, the risk of losing objectivity presents itself when issuing the opinion; therefore, the Committee believes that it is important that the company periodically change the person in charge of issuing the financial statements, as well as their work group.

Practice 25.

It is recommended that the partner responsible for issuing the opinion on the financial statements of the company, as well as their work group, is changed every 5 years, in order to ensure objectivity in the work and reports.

Pursuant to what is established in the General Law of Business Corporations, a company's Comptroller is appointed by the Shareholders' Meeting and is responsible for, among other things, the review of both the financial statements and the application of the accounting policies. In addition, the external auditor must be appointed by the Board of Directors to issue an opinion on the financial statements. Although some of the functions of the Comptroller and the external auditor are similar, those responsible for their appointment do so for different purposes, therefore, tasking the Comptroller with the execution of the external audit generates conflicts of interest.

Practice 26.

It is recommended that the Comptroller be someone other than the person responsible for issuing an opinion on the financial statements of the company.

Practice 27.

It is recommended that the person appointed as Comptroller of the company have the professional expertise and experience that permit said party to comply with their legal obligations. Likewise, it is recommended that the profile of the Comptroller be included in the annual report presented to the Board of Directors.

V. 3 Financial Information.

The financial information presented by Senior Management to the Board of Directors over the course of the year generally includes figures that have not been subject to audit, therefore an opinion on the review processes for the aforesaid information is recommended.

Practice 28.

In order to ensure that the Board of Directors makes decisions based on reliable financial information, the intermediate authority that undertakes the auditing function will provide the Board with their opinion on the aforesaid information, which shall have to be signed by the Chief Executive Officer and by the Director responsible for the drafting thereof.

The internal audit is a valuable tool for the transaction monitoring functions of the company due to the fact that it provides for the evaluation of the financial information, the process for the release thereof, as well as for the efficiency of the internal controls necessary for an orderly and reliable operation.

Practice 29.

It is suggested that the company have an internal audit area and that the general guidelines and work programs thereof are approved by the Board of Directors.

Maintaining a standard accounting policy ensures consistency in the financial information and assists in the elaboration of future forecasts for the company, therefore the Board of Directors must be informed about the accounting policies and criteria that are applied during the preparation of the financial statements.

Practice 30.

It is suggested that the accounting policies and criteria employed for the drafting of the financial information of the company are submitted for the approval of the Board of Directors and that said body is informed about the consistent use thereof.

It is considered that when, in an exceptional case, the decision is adopted to modify an accounting policy or add a new one, and the aforementioned decision must be informed in a timely manner and include the corresponding explanation, in order for the users thereof to be able to evaluate the effects of the aforementioned change.

Practice 31.

It is recommended that the changes in the accounting policies and criteria are duly substantiated for the analysis thereof by the Board of Directors, prior to the approval thereof.

With the purpose of promoting confidence and certainty in the information provided to shareholders, it is important that the bases for the preparation of the annual information are consistent with those that were employed during the fiscal year.

Practice 32.

It is recommended that the Board of Directors approve the mechanisms necessary for ensuring the quality of the financial information that is submitted to said body; in the event that the aforesaid information corresponds to intermediate periods during the fiscal year, the Board shall monitor to ensure that it is prepared employing the same policies, criteria and practices with which the annual information will be prepared. During the aforementioned process, the Board may resort to the aid of the internal and external auditors and of the Comptroller of the company.

V. 4 Internal Control.

Internal control¹⁵ is the mechanism whereby the Board of Directors ensures that the company operates within a general environment of control, thus obtaining a higher degree of certainty on the effectiveness and efficiency of the management thereof.

Practice 33.

It is suggested that the general guidelines on internal control and, as the case may be, the revisions thereto, are submitted for the approval of the Board of Directors.

It is important for the Board of Directors to have information on the processes with which the company works, that said processes are ordered and allow an adequate control of the transactions. In order to comply with the aforementioned, the reports issued by the internal and external controls shall serve as assistance for verifying the effectiveness of the control systems.

Practice 34.

It is suggested that the Board of Directors receive the necessary assistance for ensuring the effectiveness of the internal controls, as well for as the process for the release of the financial information.

Practice 35.

It is suggested that the internal and external auditors evaluate, pursuant to their normal work program, the effectiveness of the internal controls as well as the quality and transparency of the process for the release of the financial information and that the results mentioned in the letter of observations are discussed with them¹⁶.

¹⁵ Internal control is understood as the process executed by senior management for evaluating specific transactions and which is designed with the purpose of providing a reasonable certainty on the effectiveness and efficiency thereof, the reliability of the financial information and compliance with the laws and regulations; the structure thereof includes the control environment, the control activities, risk evaluation, information and communication as well as monitoring

¹⁶ Letter of observations is understood as the document wherein the significant deficiencies observed in the design or operation of the internal control system are recorded, which could negatively affect the organization's capacity for recording, processing, resuming and reporting the financial information.



V. 5 Related Parties.

During the normal operations of the company, it is common for transactions with related parties to take place (companies within the same business group, associated companies, shareholders, members of the Board, Chief Executive Officer and senior level executives) which, it is recommended, should be analyzed and compared with established policies to ensure the adequate release and transparency thereof and to identify any situations that could derive into a conflict of interest; likewise, evaluate that the conditions under which the transactions take place are fair for the company and that they take place in accordance with how they were agreed upon.

Practice 36.

It is suggested that the Board of Directors receives assistance for the establishment of policies and for the analysis of the approval process and the contracting conditions of transactions with third parties.

The Committee believes that it is important that transactions with related parties outside the regular course of business of the company are submitted, prior to the execution thereof, for the approval of the Board of Directors. However, in the event that the aforementioned transactions were to represent more than ten percent of the consolidated assets of the company, it is recommended that the approval of the Shareholders' Meeting is obtained. Likewise, obtaining the opinion of independent experts is recommended in cases where this is deemed appropriate.

Practice 37.

It is recommended that the Board of Directors receives assistance for the analysis of the proposals for the execution of transactions with related parties that are outside the regular course of business of the company which, should the case arise, are submitted by the Chief Executive Officer for approval thereof. Likewise, it is recommended that in cases where these transactions represent more than 10% of the consolidated assets of the company, that said transactions are submitted for the approval of the Shareholders' Meeting.

V. 6 Review of Compliance with Provisions.

The Committee believes that it is important that the company have a mechanism that will permit the Board of Directors to be informed of compliance with the legal provisions applicable thereto.

In order to do this, it is necessary to periodically issue a report on the degree of compliance with the provisions and help prevent the occurrence of any legal contingency for the company. With this process, the possibility of the occurrence of events which could put the company at risk, or that imply unforeseen costs, is diminished, providing the shareholders with certainty on the legal status of the company.

Practice 38. It is recommended that the existence of mechanisms that help establish whether the company is duly complying with the legal provisions applicable thereto is guaranteed. For the purposes mentioned above, it is convenient that, at least once a year, a review is made of the legal status of the company and that the Board of Directors is informed about the results thereof.

CHAPTER VI EVALUATION AND SETTLEMENT FUNCTION

The Committee recommends that the Board of Directors receives assistance for compliance with the evaluation and settlement function of the Chief Executive Officer and of senior level executives in the company.

The Committee believes that the proposals drafted by Senior Management must be submitted to the Board of Directors in order for said body to make the corresponding decisions. It is advisable that the evaluation and settlement system is explained in the annual report and that the operation thereof takes place in a transparent manner in order to shareholder trust in senior management.

Considering the importance of the role of the company in the development and wellbeing of the community, the Committee recommends that the company issue its code of ethics, state its Corporate Social Responsibility principles, consider third parties interested in their decisions and that it adopts a mechanism for reporting wrongful acts and protecting the informants.

In order to ensure that the succession processes of Senior Management and of high-level officers is orderly, stable and does not affect the course and continuity of the company over time, the Committee recommends that the company draft a formal succession plan.

VI. 1 Generic Functions.

The purpose of the following functions is that of providing the company with adequate and reasonable policies on human resources and remuneration that are in the best interests of the company, which will consequently permit it to be competitive, stable and permanent over the course of time.

Practice 39.

It is recommended that the intermediate authority comply with the following functions:

- I. Suggest criteria for the appointment or removal of the Chief Executive Officer and senior executives to the Board of Directors.**
- II. Propose the criteria for the evaluation and remuneration of the Chief Executive Officer and senior executives to the Board of Directors.**
- III. Recommend the criteria for the establishment of severance payments for removal of the Chief Executive Officer and senior executives from the company to the Board of Directors.**

- IV. Recommend the criteria for remuneration for members of the Board.**
- V. Analyze the proposal submitted by the Chief Executive Officer on the structure and criteria on remuneration for personnel.**
- VI. Analyze and present the statement for considering the company as socially responsible, the Code of Ethics, as well as the wrongful acts and informant protection information system to the Board of Directors for approval thereof.**
- VII. Analyze and propose to the Board of Directors the approval of the Formal Succession System of the Chief Executive Officer and senior level executives and monitor compliance therewith.**

Practice 40.

It is recommended that, with the purpose of preventing a possible conflict of interest, the that the Chief Executive Officer and the senior executives abstain from participating in the discussions on the matters mentioned in Paragraphs i, ii, and iii herein.

VI. 2 Operative Aspects.

The Board of Directors shall be assisted with the evaluation of the policies for the establishment of the remunerations of the Chief Executive Officer and senior executives of the company. It is important that the aforesaid policies include aspects such as previously established goals, individual performance and the performance of the company itself. The Committee shall consider that the remuneration policies that are implemented by the Board of Directors will be established in the annual report for shareholders.

Practice 41.

It is recommended that the policies for the establishment of the remuneration of the Chief Executive Officer and senior officers be reasonable and consider aspects related to their functions, the scope of their objectives and the evaluation of their performance.

Practice 42.

It is suggested that the policies employed and the components that compose the remuneration packages of the Chief Executive Officer and senior officers of the company be disclosed in the annual report presented by the Board of Directors to the Shareholders' Meeting.

In order to protect the company's assets, it is important that the Board of Directors receive assistance for the avoidance of excessive payments to the Chief Executive Officer and senior executives, for the concept of integrated compensation and remuneration, through a prior review of the hiring conditions.

Practice 43.

It is recommended that the Board of Directors receives assistance through a prior review of the hiring conditions of the Chief Executive Officer and senior executives, in order to ensure that the probable payments for their removal from the company are reasonable and in adherence with the guidelines established by the Board of Directors.

The long-term stability and permanence of the company is important for preserving shareholder investment and for the benefit of interested third parties and therefore, it is necessary to aid the Board of Directors to ensure that the company has a formal succession plan for the Chief Executive Officer and the senior executives, in such a way that this process is carried out in a stable, planned and orderly manner.

Practice 44.

It is recommended that the Board of Directors receives assistance for ensuring that a Formal Succession Plan for the Chief Executive Officer and senior executives is established with the purpose that the process takes place in a stable, planned and orderly manner.

CHAPTER VII FINANCE AND PLANNING FUNCTION

The Committee recommends that the Board of Directors is aided in the finance and planning function and that the intermediate authority ensures that the proposals are submitted to the Board of Directors in order for this body to adopt the corresponding decisions.

The Committee believes that the stability and continuity of the company are both basic elements for the preservation of the shareholders' equity and the benefit of interested third parties. Consequently, the existence of a strategic planning system that includes a long-term vision of the company is important, as is the case with the mechanisms for the identification, management, control and disclosure of risks that the company is subject to.

The intermediate authority that performs this function shall also assist the Board of Directors with the analysis of investment and financing policies, as well as with the premises for the preparation of the annual budget and the control system thereof.

It is important to consider that, for the establishment of responsibilities, the function of the intermediate authority is the analysis of the proposals of the Chief Executive Officer for these matters and to provide their opinion to the Board of Directors.

VII. 1 Generic Functions.

The purpose of the functions established below is that of assisting the Board of Directors with the definition of the strategic vision and the validation of policies and guidelines that are submitted by the Board of Directors related to, among others, the strategic plan, investments, financing, budget and risk management.

Practice 45.

It is recommended that the intermediate authority comply with the following functions:

- I. Study and propose the strategic vision of the company to the Board of Directors in order to ensure its stability and continuity.**
- II. Analyze the general guidelines that are presented by Senior Management for the establishment of the company's strategic plan and provide follow-up on the implementation thereof.**
- III. Evaluate the investment and financing policies of the company proposed by Senior Management and provide its opinion thereon to the Board of Directors.**
- IV. Provide an opinion on the premises of the annual budget that is presented by the Chief Executive Officer and follow-up on both the application and control system thereof.**
- V. Evaluate the mechanisms that are presented by Senior Management for the identification, analysis, management and control of the risks that the company is subject to and provide an opinion thereon to the Board of Directors.**

VI. Evaluate the criteria that are presented by the Chief Executive Officer and provide their opinion thereon to the Board of Directors.VII. 2 Operative Aspects.

In order to assist the Board of Directors in the decision making process, it is considered important that the Board receives opinions on the different matters that compose the finance and planning function and that it also receive recommendations on the priorities that it must assign.

The definition of the long-term vision is an important tool for guiding the various activities of the company and for ensuring its stability and continuity for the benefit of the shareholders and interested third parties.

Practice 46.

It is recommended that the Board of Directors dedicate time during one of the meetings held during the year to the definition or up-date on the long-term vision of the company, in order to ensure the stability and continuity of the company.

Strategic planning is necessary for shaping a long-term vision, defining the goals that are to be attained, establishing the plans that will lead the company to the fulfillment of the aforesaid goals and the attainment of continuity.

The Strategic Planning System shall be drafted by Senior Management and submitted for the approval of the Board of Directors with the prior recommendation of the intermediate authority that is providing assistance on the matter.

Practice 47.

It is recommended that the Board of Directors receive assistance for the review of the Strategic Plan that is presented thereto for approval by Senior Management, and that the Board follow-up on the implementation thereof.

The policies for cash management, for the trading of derivative financial products, for investments in fixed assets, as well as for the trading of liabilities of any nature must be submitted by the Chief Executive Officer for the approval of the Board of Directors, with the prior opinion of the intermediate authority that is providing assistance.

Practice 48.

It is recommended that the Board of Directors receives assistance for the analysis of the policies that are submitted for the approval thereof by the Chief Executive Officer in matters of cash management, for the trading of derivative financial products, investment in assets and trading in liabilities, ensuring the alignment thereof with the strategic plan and which correspond to the normal course of business of the company.

The budget is an important tool for controlling transactions and evaluating management, therefore it is advisable to review the premises employed by Senior Management for the drafting of the budget, as well as the system that will be implemented for the control thereof.

Practice 49.

It is suggested that the Board of Directors is assisted in the review of the premises in the annual Budget that is submitted to said body for approval by the Chief Executive Officer, as well as for the review of the control system, verifying the alignment thereof with the strategic plan.

The risks that the company is subject to play a fundamental role in the profitability and continuity thereof, to the point that these can endanger shareholders' investments and the benefit of interested third parties. Therefore, the identification, evaluation, management and control of risks are very important, as is the case with the mechanisms for revealing the effects thereof.

The Board of Directors shall necessarily be permanently informed by the Chief Executive Officer about any risks that may have been identified, the quantitative and qualitative impact that they can have on the company and, the measures that are being adopted in order to avoid or, as the case may be, manage said risks.

Practice 50.

It is recommended that the Board of Directors be assisted with the evaluation of the mechanisms for the identification, analysis, management and control of the risks that the company is subject to, as well as with the criteria for or the disclosure thereof, which are presented for the Board's approval by Senior Management.

Practice 51.

It is recommended that the Chief Executive Officer present to the Board of Directors, during each of the meetings held during the year, a report on the situation that each of the identified risks is currently in.



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